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EDITORIAL

As We See It

see last sentence

It was a German philosopher who said that all we learn from history is that we learn nothing from history. One can scarcely give much consideration to current discussions of current problems and current world conditions without very quickly becoming impressed with the truth and pertinence of this philosophic generalization. Nowhere is this shortcoming of mankind more conspicuously and more regularly in evidence than in things which have to do with public policy as it relates to business.

If one harbors any doubt whatever about it, he need merely turn his attention to current discussion of a tax policy appropriate to the conditions which now confront us. Bent upon "taking profits out of war," demand is heard on all sides for an excess profits tax upon corporations. In both World Wars, the story was much the same, and we proceeded to act accordingly. Of course, we did not succeed either time in making war profitless in the ordinary sense of the term. The difficulties inherent in giving practical effect to such an idea as it relates to corporations should by now be evident to all, although it does not appear to be.

It is inevitable, of course, that some corporate enterprises gain by war (if it is won) and it is equally inescapable that some others lose. It is plain enough that such efforts as we have hitherto made to seek out those which profit by war and take away the bulk of such profits have not succeeded. It should be about equally clear that the attempt to do such a thing has been costly and troublesome. If there is any doubt of this fact

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The Prospects for Business And the Stock Market

By S. B. LURIE*

Market Analyst, Paine, Webber, Jackson & Curtis, Members, New York Stock Exchange

Market analyst asserts outlook over the very long-term for both the stock market and general economy is for major expansion. For the immediate future, however, he foresees highly irregular business due to consumer credit restriction and dislocations from rearming impact; and a fairly static stock market where "the trees won't grow to heaven."

We've been in an economy which has been influenced almost as much by the actions taken by Washington officials as it has by industry's supply-demand factors. And Korea obviously emphasizes this condition of paternalistic government—with the result that the "P" for politics (both external and domestic) has assumed special importance in the economic equation. In the process, a new element of uncertainty has been created—for it's difficult to forecast the Administration's actions and reaction; there's a rarefied atmosphere in Washington which doesn't exist in Wall Street. But the unknown is a challenge, rather than a cause for concern. After all, life itself does not suffer security—but it does offer opportunity.

Sidney B. Lurie

I'd like to repeat and rephrase this truism—for it's the keynote of my remarks today: The stock market—like life—does not offer security, but it does offer a wealth of opportunity.

A New Era

If we're to make the most of our opportunities in these days of fearful prosperity, there's one consideration which can't be underestimated: We've entered a new era, one which may later be called the "Buoyant

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*A talk by Mr. Lurie before the Brockton Rotary Club, Brockton, Mass., November 16, 1950.

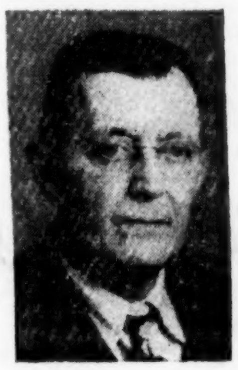
The Excess Profits Tax a Bad Tax

By O. K. BURRELL

Professor of Business Administration University of Oregon

Prof. Burrell's objections to excess profits tax are (1) it is only incidentally related to war derived profits; (2) it destroys both corporate and individual incentive; (3) it is a deterrent to efficiency; (4) it is a stimulus to monopoly; and (5) it is complicated and filled with contradictions. Sees in excess profits tax nothing more than a differential tax levied on form, but not essence of corporate capitalization.

The very term "excess profits tax" has a good flavor. It is very appealing, even convincing, to a layman. If profits are really "excessive," what could be fairer than to skim them off and give them to the government for use in the military program. Indeed the most important argument being currently advanced for the tax is not its revenue productivity, as the necessity of taking the profit out of war. The recapture of war-derived income is sought more as a matter of equity than as a matter of providing additional revenues.



O. K. Burrell

We have never used an excess profits tax in peacetime. It was used in both world wars but repealed promptly when the wars ended. It has few advocates as a peacetime tax. The Congress is well aware that a peacetime excess profits tax would inevitably operate as a penalty on progress and a subsidy to indolence and stagnation. But very many feel that while such a tax would be bad for peacetime it would be entirely appropriate in time of war when the nation and particularly its young men are being asked and expected to make greater sacrifices.

But the excess profits tax is not as simple as all this. It is essential that we consider the impact of such a tax on the economy. It is not here argued that it is undesirable to tax away war derived profits. But we must

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SECURITIES NOW IN REGISTRATION—Underwriters and dealers in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 38.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

Boston Personal Property Trust—Eugene V. Flood, Manager of Trading Dept., Frank Knowlton & Co., Oakland, Calif. (Page 2)

Signal Oil and Gas Corporation—Charles T. Jawetz, Partner, Daniel Reeves & Co., Beverly Hills, Calif. (Page 2)

EUGENE V. FLOOD
Mgr. Trading Department,
Frank Knowlton & Co., Oakland, Cal.

Boston Personal Property Trust

Eugene V. Flood

The security I like best for the future is the common stock of the Boston Personal Property Trust. This Trust, which was founded in 1893 and has paid dividends continuously for 58 years, is in my opinion one of the real opportunities to participate in the future growth of America. Selling today on the Boston Exchange for approximately $23, the purchaser obtains a portfolio with a value of about $27, consisting of securities which I consider the finest in any trust, open or closed. The portfolio is a real "blue chip" list, with holdings of Christiana Securities Co., Draper Corp., duPont, Eastman Kodak, International Business Machines, International Harvester, National Steel, Standard Oil of California, Union Carbide, and many other stocks of like caliber. In the utilities, there are stocks such as American Gas and Electric, American Telephone, Boston Edison, and Pacific Gas and Electric Company, and in the rails, Norfolk and Western, and Union Pacific Railroad. In addition, there is a large holding of insurance and bank stocks.

One of the important reasons for my liking the stock is the low cost of management. For the six months ended June 30, 1950, the total expense of operation of this Fund, including trustees' fees, custodian fees, and transfer agent fees was $10,824.34, and the total portfolio, as of June 30, was $6,432,138.88. In other words, on a yearly basis, the cost of operation of this Fund is approximately 3/10ths of 1%. For this, the stockholders must thank the trustees, than whom there are no better, as the following names will attest: Charles F. Adams, Harvey H. Bundy, Richard C. Curtis, Francis C. Gray and Moses Williams. Any investor should be happy to have these five gentlemen manage his investment account.

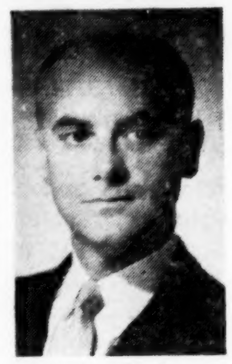
In 1949, the company paid $1.16, and at present is on a 25 cents quarterly basis and presumably will pay an extra at the end of the year, as has been its past custom. Based on last year's dividend, the yield is 5%.

I might say that the only objection to this stock is that there is not enough of it available. The total amount outstanding is 260,860 shares, and it is extremely inactive on the Boston Exchange, with the bulk of the trading being done in the Over-the-Counter market.

For peace of mind and income, I recommend Boston Personal Property Trust.

CHARLES T. JAWETZ
Partner, Daniel Reeves & Co.,
Beverly Hills, Calif.

Signal Oil & Gas Corporation



Charles T. Jawetz

There are many factors today that make the selection of a preferential security rather hazardous, and regardless of the one selected, one must be keenly aware of the changing times that might very well induce one to make a selection today that wouldn't be considered six months from now. For example, pre-Korea, a selection could have been made without any worry about possible controls, material shortages and excess profits. Today, such factors must be well up on the list of things to be considered before investing money in any common stocks.

With the American economy about to be geared to what will amount to permanent preparedness, the security I have chosen as the one I like best embraces participation in such a program and continued growth, with the promise of considerable reward to the patient stockholder in the form of probable capital appreciation. The security is the common stock of the Signal Oil & Gas Corporation, listed on the Los Angeles and San Francisco Stock Exchanges. It is not the ideal security for one primarily interested in a large rate of return. To the contrary, it should only be bought by those interested in long-term appreciation, for large cash dividends commensurate with its earnings are not likely in the near future.

The company has reinvested its earnings in exploration and development that eventually should greatly reward the patient stockholder. For example, in 1949, when the stock earned $8.38 per share, its total dividends amounted to only $1.25. This year, its payments will total $1.50 and it should earn an amount close to that earned in 1949. In the early part of this year, demand for crude was lower but this demand has picked up and this factor, coupled with the price increase, has accelerated earnings to the point where the company is probably earning more at this time than it was during the same period in 1949. These earnings reflect the company's interest in the Southwest Exploration Co., a Tideland property, in which it controls 66%, but do not reflect earnings from the Long Beach Oil Development Co., in which it has a minority interest of 28½%. This minority interest earns in the neighborhood of $800,000 per year and will not be reflected in the company's over-all report until final outcome of the Tidelands question. It appears probable that the company will in no way be affected regardless of the outcome except that its landlord will be the Federal government rather than the State of California or a combination of both.

A significant item concerning ownership of the company's shares was recently revealed when several of the larger investment trusts, notably Lehman Corporation, divulged the fact that they have been buying the stock for their porfolios. It is very apparent that such buying is for the long-term rather than for the dividends expected in the near future.

With the company's net reserves estimated at over 100 barrels per share excluding those in Texas and some of the Tideland properties, the stock offers what appears to be an ideal channel for one looking for an inflation hedge. The reserves in Texas are understood to be considerable and very valuable but as yet, are unestimated.

A highly significant development in the Tidelands question took place as of Oct. 1 of this year when the Departments of Justice and Interior approved the action of the State of California in granting the company new leases in the Huntington Beach area. Contrary to the friction with respect to the Louisiana and Texas areas, this action indicates a more amicable solution to the Tidelands question as it affects California properties.

The management has shown itself to be extremely keen and alert, particularly in its geology. If it is ever decided to give the shares a broader market by listing on the New York Stock Exchange, they quite likely will command a much higher price than they now do being regionally traded. Such a listing, too, would necessitate a further split-up of the shares which is another factor that should command a higher price. Currently priced around $56.00 per share, Signal Oil & Gas Corp. appears to be an underpriced equity.

H. C. Keister Co. Forming Dec. 31

H. C. Keister & Co. will be formed Dec. 31 with offices at 72 Wall Street, New York City. Partners will be Henry C. Keister and Leonard A. Sorneson. Both are presently officers of Adams, Keister & Co., Inc.

Business Man's Bookshelf

1950 Bituminous Coal Annual—Bituminous Coal Institute, Southern Building, Washington 5, D. C.—Paper.

Economic Aspects of Atomic Power—An exploratory Study under the direction of Sam H. Schurr and Jacob Marschak—Princeton University Press, Princeton, N. J.—Cloth—$6.

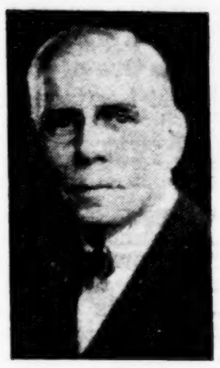
Economy of Latin America, The—Wendell C. Gordon—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Cloth—$5.50.

What's Ahead?—Long- and Short-Term Prospects

By EDWIN G. NOURSE*
Former Chairman, Council of Economic Advisers

Dr. Nourse reviews and analyzes economic conditions and prospects covering a 10-year period, a two-year period, and a one-year period. Because of continuation of Russian menace, foresees 10 years of strain ahead, and warns we cannot plunge into military commitments and let our economy and financial system go by the board. Says national security rests on dollar and price index, and warns of increasing distrust in value of our currency. Concludes, with good management, we could in one year put nation on sound foundation for 10-year strain.

It would be hard to exaggerate the rapidity with which and the extent to which American economic history of the future is being written today. We are just coming to the critical stage which culminates some momentous developments of the past two decades. First World I, followed by the Big Depression Next, World War II, followed by the Big Inflation.



Edwin G. Nourse

Now the Korean episode, which one columnist has cleverly called World War II½, poses the Big Question: How shall we play our part in saving the free world without wrecking ourselves? In the next few months the 82nd Congress will give us the Big Answer. By saying this, I do not mean that they will hand us a neat solution to the Big Question. But what they do or fail to do will probably cast the die as to the prosperity, the solvency, and the freedoms of our country in its next epoch.

Hardly six weeks ago, the Congress recessed, after taking several initial but decisive steps to double military spending, reactivate the draft, raise taxes materially, and provide a machinery for extensive economic controls. In only a couple of weeks, they will reconvene to resume consideration and action on measures designed to safeguard not only our prosperity, but our long-cherished freedoms. The members of Congress have been discussing national issues with the home folks, and on Election Day the home folks made the selection of those who will represent them after Jan. 1. These closing months of 1950 and opening months of 1951 seem to me a peculiarly important, I might even say fateful, half year. In it, all of us as responsible citizens should try to get the soundest understanding we can of what is happening and prepare to make our personal democratic contributions to safe and sound national thinking.

When Mr. Babson asked me to talk on the theme, "What's Ahead?", I immediately asked myself, "How long ahead?" And what I am going to say to you will be geared to four different time perspectives, beginning with the longest and coming down to the shortest: ten years, that is the decade of the '50s; two years, that is until the next Presidential election; one year, that is business and political 1951; three months, that is the time in which we take the measure of the 82nd Congress.

Ten Years of Strain

One thing which the Korean war seems to have taught us is that Soviet imperialism is a "real and present danger.' We cannot safely think in terms of anything less than settling down to the steady pull of something like ten years in which we must sturdily bear the burden of economic, political and military leadership of the free world so as to defend it against aggression by Russia or her stooges. During this ten-year period, we must scale our military effort so that it can be borne by the economy without breakdown and tolerated by the people year after year without revolt or serious loss of morale.

Korea demonstrated again for Stalin's benefit (as it had already been demonstrated for the Kaiser's benefit and Hitler's benefit) the fallacy of the quick-war dream. It showed again the reserve strength of the United States. By now proving that we can mount the military strength needed to preclude a quick victory to an aggressor and at the same time keep our democratic capitalistic system running smoothly, we would make it utterly foolhardy for the Kremlin to open a war at any time during the decade. Indeed, if we hit a ten-year miliary-industrial stride, the Soviets might abate their military threat much sooner than 1960. But even if they did not, such a policy would be one that we could continue indefinitely and which would be compatible with full employment and sustained high production.

Speaking as an economist, I feel that, in the hysteria that developed after the surprise—not to say treacherous—attack in Korea, military and diplomatic issues have been given a distorted emphasis. Here I want to quote a very wise remark from a very able and conscientious man—Gen. Omar Bradley, Chairman of the Joint Chiefs of Staff. In his re-

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*An address by Dr. Nourse at the National Business Conference, Wellesley Hills, Mass., Nov. 11, 1950.

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Nominated to Head N. Y. Invest. Assn.

Edward F. Swenson, Jr., of Clark, Dodge & Co., has been nominated for the Presidency of The Investment Association of New York on a slate presented to the membership for action at the annual meeting scheduled for Thursday, Dec. 14. A graduate of Yale University and a veteran of the recent war, during which he served as a captain in the U. S. Army, Mr. Swenson is in the sales department of his firm. He has been active as head of the association's speakers' group this year.

Announcement of the slate was made by Blancke Noyes of Hemphill, Noyes, Graham, Parsons & Co., President of the association, which was formed in 1947 as the Junior Investment Bankers and Brokers Association.

Dean Witter, Jr., of Dean Witter & Co., this year's Treasurer, was nominated for Vice-President and Richard G. Murphy of B. J. Van Ingen & Co., was named to succeed him as Treasurer. Harry A. Jacobs, Jr., of Bache & Co. was proposed for Secretary. Those nominated to the Executive Board to head various committees include Ralph Hornblower, Jr., of Hornblower & Weeks, program committee; Edward D. Toland, Jr., of Shields & Co., education; T. Alexander Benn of Merrill Lynch, Pierce, Fenner & Beane, publications and publicity; John C. Hagan of White, Weld & Co., entertainment, and Renwick E. Case of Discount Corporation of New York, membership.

Francis J. Cullum of W. C. Langley & Co. headed the nominating committee, which also included F. Brent Neale of Carl M. Loeb, Rhoades & Co.; Joseph O. Rutter of Rutter & Co.; Charles P. Stetson of J. & W. Seligman & Co., and Frank S. Streeter of Tucker, Anthony & Co.

Joins Bacon, Whipple

(Special to The Financial Chronicle)

CHICAGO, Ill.—Joseph E. Rich has joined the staff of Bacon, Whipple & Co., 135 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Incentives by Inflation

By MELCHIOR PALYI

Dr. Palyi, in claiming Administration's current policy is planned economy, with production as its first aim, and the inflationary results as secondary consideration, points to neck-breaking rise in money volume. Says creating incentives by inflation leads to continuing economic instability, and with prospect of a long "pax Trumana" ahead, rising prices and growing shortages must be expected.

The New Target

He who doubts that we are in a planned economy of a kind—we shall see what kind—should listen to public speeches by Mr. Keyserling, the President's chief economist. Of course, he speaks only for himself, or so he says, assuring us that we have not only a free country but also a free government in which divergent opinions clash freely. The fact is that Mr. Keyserling presents the dominant rationalizations to justify the Administration's current policies — in turn relying heavily on Professor Sumner Slichter as his "scientific" witness.

Dr. Melchior Palyi

The first thing in every planned economy is a production "plan" which is to be fulfilled (in Russia) or a "target" at which the government is shooting (in Britain). In either case, a specific number of years is set; ours is of the Muscovite type: five years. The Russians never fulfill the goal, and the British always miss the target; to be sure, we might overdo the 25% expansion program, which is the current Washington Plan: to raise the gross national product to an annual $350 billion (in real terms) by 1955. That much should be easy, according to Mr. Keyserling; in the quinquennium 1939-44, we accomplished a 75% output boost.

But what about the obvious danger of inflation? The Slichter-Keyserling line is "production first, prices second." In other words, let us not worry too much about such little things as the stability of the economic system—which is what the price problem implies to any one who understands the ABC of economics. What matters, they say, is to produce; more output should in the long run automatically restrain prices. Anyhow, we have a job to do which is, they say, what matters. (Actually, the "conservative" Professor Slichter advocates the systematic monetization of Federal debt so as to offset the threatening "deflation.") But to think that Mr. Keyserling ignores inflation would mean to underestimate his acumen. He merely pooh-poohs it—Bernard Baruch, the inflation-Cassandra, is his *bete noire*—arguing that incentives are needed to raise the over-all output, and that more than partial controls would reduce the incentives. If you still worry, the government has a final answer: it will, by wise planning, contract the civilian sector of the economy exactly as the military sector expands, so that the total would stay always in balance.

In fact, the American system, the system of capitalistic enterprise, is capable of producing each time more than it did at the previous peak of output. It can break its own records. Naturally so, since at each peak it learns more know-how, develops better techniques, carries equipment over from the previous peak, etc. But at each subsequent record, it also calls for higher wages and higher prices.

Small wonder that prices are rising. That is psychological, the Doctor insists; expectations are the reason. (As if civilized men were guided by anything else.) If so, what will be the expectations from here on, how will they affect the dollar's purchasing power and the planners' plans?

The trouble with the planners is that, consciously or otherwise, they visualize the economic system as a mechanism—it could not be "planned" otherwise—and ignore what is called the human element. A mechanism obeys the orders of the engineer automatically; humans do not, with the possible and limited exception of slaves; that is why Soviet Russia **must** have slavery. Under civilized conditions, the collective judgments of the market place are supreme, based on hard experience and the urge of self-protection. Official and semi-official forecasts and exhortations enter into those judgments merely as one element among many—one to be discounted by hard experience.

Double-Talk About Inflation

Actually, the monetary volume (cash in circulation and adjusted deposits) has risen in six months' time by nearly $5 billion, a neck-breaking rate. By the end of last September, it had reached the all-time high of about $172 billion. Surely, the volume of goods on the markets—under conditions of full employment—could increase only under the stimulus of higher prices. Higher incomes are the "incentive" the Fair Deal has in mind. Its double-talk about controls should be evident: it talks about checking price inflation while deliberately promoting monetary inflation. Inflate it must, so as to induce people to work harder and longer hours; to put submarginal mines and farms into operation; to invest at exorbitant costs in plants which do not promise peacetime yields. And control it must, so as to maintain the purchasing power of the "incentives." But the two objectives, rising incomes and stable prices, are obviously irreconcilable. Hence, the bright idea of partial controls which are supposed to let us eat our cake and have it, too.

The apparent impossibility might work to some extent, as it did during the last war, under three conditions. One would be actual war that induces people to toil harder and to save their added income in the hope of enjoying it later. Secondly, the "duration" would have to be limited in time, people expecting a reasonably early peace without—and this is the third condition — appreciably higher prices after. But none of these conditions prevails at present. There is no real war, but an emergency which may last "our lifetime." The official prophecies which influenced people during the last war, that a postwar depression would provide ample purchasing power for the accumulated liquidity and ample goods in the stores, is scarcely acceptable any longer to the simplest common sense. The public expects now, and must expect, a long *pax Trumana* with the prospect of rising prices and growing shortages, with no end in sight. Its choice, then, is between a self-imposed austerity — hoarding the excess money we earn with no chance of getting real value for it—or having the government take it away by way of excessive taxation and forced savings.

In either case, the incentive of rising wages, farm prices and business profits must eventually lose its effectiveness. We might see what Europe has seen before: inflation combined not only with reduced labor-unit efficiency (as is the case already) but with a stationary or declining output.

This is another way of saying that we are operating, and will do so increasingly, under the law of diminishing returns. Which is what is to be expected when a defense boom is being built up on top of a civilian boom — one full employment on top of the other, and on an international scale at that.

Total Confusion

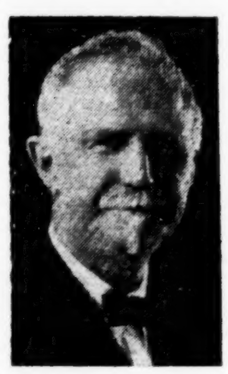
Nor does it help to gradually compress the civilian sector if the military sector grows in proportion, or better, and if credit expansion and/or government deficit pour out additional purchasing power. (Actually, even a budget balanced with the aid of excessive and maldistributed taxation pours oil on the fire of rising prices.) As long as defense preparations must rely on monetary inflation as their incentive, the result can only be—price inflation.

Perhaps it is unfair to the Fair Dealers to discuss their ideas too seriously. They may be nothing more than ideological stop-gaps for the sake of "public relations." What they indicate more than anything else is the compounded confusion on the domestic front from which the nation's Management suffers, from top level down. That, in turn, is a reflex of an underlying confusion about what "defense" means: against what, for how long, over what area, by which military and spending methods, etc.? The totally obsolete idea of a global Maginot Line built of men, weapons, and especially of dollars, engenders domestic production and financing policies which are bound to be destructive of the material and spiritual heritage of this country.

Prices and Profits

By ROGER W. BABSON

The uneasy international situation plus a continuing rise in the cost of most goods and services has quite naturally focused attention on profits. Unfortunately, it has also revived the dangerous and widespread belief that business, big and little, is profiting excessively at the expense of wageworkers.



Roger W. Babson

It is perfectly true that there are firms which do profit unduly at the expense of their employes and the general public, just as there are some individuals ever ready to lie, cheat and steal. But the recent record of American business generally in this regard is an honorable one worthy of defense. Yet, when costs go up, our first impulse is to blame the greedy manufacturer because we believe he is taking advantage of us.

Labor unions then take up the cry of "excess profits" as they agitate for higher wages. Meanwhile an ever-growing share of the really substantial profits of American business is being drained off by government in the form of Federal, State and local tax levies. If even one-half of the time, money and energy which government, management and labor spend in foolishly antagonizing each other were to be spent in a united effort to curb waste and increase production, we would soon have a far higher standard of living than we now enjoy.

Stockholders Are Human

The truth is Uncle Sam has now become so adept at piling tax upon tax—and squandering so much of the money which he takes in—that the average corporation stockholder is really just another "laboring man." Those who invest their money in common stocks enable companies to produce more efficiently and reduce prices. This further enables these companies to pay fair wages while at the same time to make substantial Federal and local tax contributions.

There are times when labor unions have some legitimate complaints, but I know that labor unions are barking up the wrong tree when they attack stockholders as a class. They forget that the ownership of stocks is now pretty well spread over all the elements of our population. In fact, I am certain that the percentage of wageworkers who are actually stockholders is very large. It is no longer rare to find even labor unions investing in industrial stocks; they know that now an additional investment of close to $10,000 is needed to give a new man a job.

Why Blame Manufacturers?

When costs go up, there is a widespread tendency to make manufacturers and storekeepers the scapegoats, just as there is a false notion that the latter receive a disproportionate share of the retail price. Doubtless our distribution system is wasteful in some respects; but it has gone a long way in the creation of the mass markets which make possible mass production.

I do wish that more people knew how this distribution system ticks and how much it costs. For example: Bread and a number of other food products cost much more to market than the part of the total retail price to consumers which the farmer, the miller and the baker receive. Everyone should realize that a good slice of the cost of every item consists of taxes, transportation, rent and salesmen's wages. These expenses are not subject to daily or weekly changes as are raw materials.

A Suggested Remedy

No single group is entirely to blame for high costs and high prices. The chief culprit is government, but we all share in the blame for government's mistakes. Year by year, larger and larger sums of money are being taken away from distributing organizations through taxes. Far too much of this tax money has been and is even now being spent in functions which increase the cost of living.

This can lead to the kind of socialism which has put once powerful England in the sorry plight where she is today. This same policy is killing our incentive and will demoralize our whole employment structure if we do not force our political bureaucrats to abandon it. We became a great nation because we were willing to continually invest more money in productive purposes. We were eager to risk our savings *because there was hope of profit.* We must not permit government to destroy that profit motive, for that would lead to the destruction of the nation itself.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A slight falling off was apparent in nationwide industrial production the past week from the sustained high level of previous weeks. However, total output continued to be markedly above the level for the similar week a year ago. It was also noted that overall claims for unemployment insurance were almost unchanged from the previous week.

While a decline of less than a point occurred in the operating rate of steel companies last week, output in the week represented the ninth consecutive week in which steelmaking furnaces were operated at an average of more than 100% of capacity. This week the rate of output is scheduled to remain unchanged from that of last week. As a result of the lack of steel, freight car builders will deliver 20% fewer cars than they expected to deliver from November through February. That is the prediction of an official in the Federal mobilization program.

The steel shortage this week is rapidly approaching a critical stage, says "Steel," the metalworking magazine. Tonnage available for general distribution is shrinking steadily under the impact of mounting DO and other rated orders. And this is only the beginning with military and related expenditures expected to hit a $50,000,000,000 pace by next Summer. Metalworking shop shutdowns and manufacturing curtailments for lack of steel and other scarce materials already are imminent, although the full effects of the diversion of supplies from normal consuming channels will not be felt until the first quarter next year.

Mills have generally departed from the policy of booking on a quarterly basis, especially as regards the major products. As a result, consumers can only hope to cover their requirements from month-to-month, and even then they are not certain of full shipments on allotted quotas since firm mill commitments are lacking in the face of rising priority requirements. Consumers who have been unable to improve their inventory positions this quarter will be further stymied early in 1951. Quotas for January will be smaller, and in some instances there will be no open capacity beyond rated orders for the month. Scattered wildcat strikes in the steel industry are causing production losses which will force further deferments in shipments since the lost tonnage cannot be recouped, this trade paper asserts.

Steelmaking is being pushed to the limit of available facilities. Wear-and-tear is beginning to force some curtailments and raw materials shortages are cause for concern.

Isolated advances in finished steel prices continue to be made, but for the most part the market is marking time pending settlement of current wage negotiations. Expectations are a general advance, possibly averaging more than $10 per ton, will be effected when the wage matter is out of the way.

Auto output was curtailed last week as a result of parts shortages and model changes. Chevrolet brought to a close its production of 1950 models on Wednesday of the previous week, devoting the remainder of the week to inventory and model changeover, as did Pontiac. Both producers have scheduled initial 1951 model production for the current week, "Ward's" stated.

The continuing American Metal Products strike forced week-long shutdowns by Nash and Packard, and Ford operated at less than half of normal volume because of alleged labor slowdowns in the Rouge rolling mill and parts shortages.

Contrary to the general trend, the electric light and power industry the past week established a fresh historical high record. The previous high record occurred in the week ended Nov. 11.

In retail trade sales volume showed favorable response to cooler weather and the approaching Winter holidays by showing a slight advance for the week and year.

During the first half of November consumer demand continued to decline with interest in many items dampened by unseasonal weather and the stiffening of credit curbs. However, the total dollar volume of retail trade continued to surpass that of a year ago. While there was a moderate rise in the interest in apparel and some other nondurables it was insufficient to offset the drop in consumer durables. It was estimated that about 30 cents out of every dollar spent in retail stores went for durable goods such as automobiles, appliances and furniture; a few months ago such purchases accounted for 39 cents out of each dollar, Dun & Bradstreet, Inc., reports.

Food stores sold about as much as in recent months; smoked meats, canned fruit and frozen foods continued to be among the most popular food items. There was a discernible slackening in the sales of pantry staples. Shoppers' interest in apparel rose

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Maybank Foresees Cutbacks in Housing

Chairman of Senate Banking and Currency Committee tells Association of Real Estate Boards, despite need for more housing, essential defense requirements must be first met.

In an address made at the 43rd Convention of the National Association of Real Estate Boards at Miami Beach, Fla. on Nov. 14, Senator Burnet R. Maybank (D. — S. C.) defended the steps taken by the Administration to reduce building construction, and hinted, if these steps are ineffective or insufficient to offset defense needs, more drastic restrictions will be required. Concerning this situation, Senator Maybank, who is Chairman of the Senate Banking and Currency Committee, said:

Burnet R. Maybank

"The construction industry being the key industry it is, in peacetime or wartime, was naturally one of the first industries to feel the effects of our shift to a semi-war economy. It would not be fair to the home buyer, the real estate industry or to our citizens generally to allow the economic forces resulting from the international and military situation to have full and free play. A severe cutback in the record breaking level of home production was not a pleasant thing to aim for. Yet, it is necessary if our defense effort is not to suffer. It is necessary also from a housing viewpoint since the economic demand for new housing cannot long survive inflation in the cost of construction materials.

"I am convinced that the need for reducing construction was proven beyond dispute. The only real problem remaining was how to devise credit regulations which would balance essential civilian needs against essential defense needs, and which would result in a fair apportionment of the necessary sacrifices among all those in need of housing, including veterans and their families and low-income and moderate-income families.

"The government has taken a major step in its attempt to solve this difficult problem. However, no one can fully evaluate the many factors involved, nor foresee the many new developments which arise. Therefore, it now remains for all of us to watch closely for the actual effects of the recent credit restrictions under changing conditions. I know that your industry, as well as the Housing Agency and the Federal Reserve Board, are doing just that. I am sure, also, that the credit controls will be modified from time to time on the basis of actual experience, in order to enable the housing industry to make the greatest possible contribution to our civilian and defense needs.

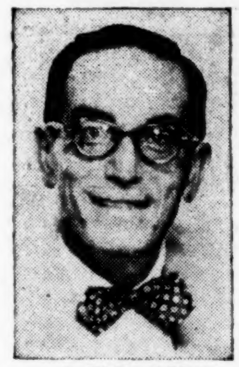
"The National Association of Real Estate Boards and the whole Real Estate industry has a tremendous responsibility in the period immediately ahead. Controls by themselves cannot do the job. We need the cooperation, above all, of industry. If we don't have it in this key industry where else can we expect it, and imagine, if you will, the consequences."

Observations . . .

By A. WILFRED MAY

THE GROWING PROPHETS' BOOM

In direct contrast to the depression which Wall Street as an investment business has recurrently suffered since the halcyon 1920s, the forecasting industry assuredly has been enjoying a continuing bull market. This has centered largely in activities attempting to anticipate stock price movements through internal market analysis in lieu of appraising individual securities according to quantitative standards of value. The remarkable growth in the popularity of prediction is evidenced in the enormous amount and content of literature now being broadcast by the services, in the voluminous advertising of their wares in our newspapers and financial journals; the degree of public acceptance seemingly being directly proportioned to the embodiment of the crystal ball.



A. Wilfred May

Motivation for the Prophecy System

There seems to be a variety of reasons, mostly psychological, for such popularity of the "prophecy system" — particularly of the "technical" methods for gauging the action of the market-as-a-whole. An ordered "system," particularly when supported by charting, supplies a welcome *escape* from the difficulties involved in the alternative approaches, such as the ability and rigorous self-discipline required for the business-like analysis and evaluation of individual securities; as well as from disillusionment over the well-publicized shortcomings of past business and general economic predictions. The mental gymnastics involved in contemplating a pictorialized market *trend* (particularly as projected into the future) is tempting for its simplification as well as for pure enjoyment. The illusion that it is easy to "beat the game"—to follow Baron Rothschild's advice to "buy sheep, and sell deer" by catching the swings with *tours-de-hind-sight*—seems to be irresistibly fostered by one's reflections over past-performance charts that depict sharp (but completely irregular) up-and-down swings. "How easy to have caught the swings!"

The "Game" Lure

Forecasting seems to afford a liberal measure of appeal as a *game* as such. While "playing the market" against "the crowd" does not strictly conform to the technical concept of the *Theory of Games* conceived by authorities as von Neumann and Morganstern,* nevertheless, from the attitude of the individual doing the forecasting, it does seem to harbor some connotations therewith. Writing on that concept, John McDonald in "Strategy in Poker, Business and War" (W. W. Norton, N. Y., 1950) says: "The theory of games is the only economic theory, except that based on Robinson Crusoe, to explain the working of the profit motive"; and "the strategical situation in game theory lies in the interaction between two or more persons, each of whose actions is based on an expectation concerning the actions of others over whom he has no control. . . . And regardless of the amount of information given them—short of the ideal of perfect information—**they generally act in the final analysis on hunch; that is, they gamble without being able to calculate the risk.**" [Bold-face mine]

Liquidity Fallacies and Price-Chasing

Another major stimulant to forecasting proclivity stems from the prevalent overemphasis on and misconception of "liquidity," entailing the invalid identification of market *price* with *value* and concentration of investors' effort on attempts to discern price "trends" in lieu of value determinants.

In complete misconception of the basic nature of the common stock, the market-timing technicians blithely overlook the fact that essentially a share in a business listed on an Exchange is not different from a share in a business not listed; and cause the

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*"Theory of Games and Economic Behavior," by John von Neumann and Oskar Morganstern, Princeton University Press, 1944.

From Washington Ahead of the News

By CARLISLE BARGERON

Aside from the other things wrong with Secretary Acheson's speech dubbing all those who disagree with him as isolationists, he must have got hold of an old ghost writer. His cracks comparing the "re-examinists" to the man who comes down to breakfast, looks at his wife and decides to re-examine why he ever married her, or to the farmer pulling up his crops to re-examine why he planted them were used at least once by Roosevelt the great. On the one occasion I have in mind he got a good laugh from them, too. He was good at making the people laugh; his knack for ridiculing his opponents was not the least of his capabilities.

Carlisle Bargeron

But what Acheson should know is that nobody is laughing now. The American people are worried; they are wondering just where in the name of heaven they are headed to. In view of what happened in the recent elections there is not the slightest doubt in this writer's mind that the Republicans could have overturned the House instead of gaining only some 30 seats. The trend was there; it had to be developed; it should have been developed, but as I wrote several weeks before the elections the Republicans were not developing it. In the uncertainty in their minds about what might happen in Korea they were in no position to make the most of this mess.

At the outset they were prepared to go to town on the "bungling in Korea," and the commentators generally agreed they stood to gain from this issue. Then we began to win and it looked as though the fighting was to end before election day. The Republicans drew in their horns and with the exception of Bob Taft and maybe two or three others, Korea got little attention for the rest of the campaign. The commentators were now generally insisting that the Korean situation was adding up for the Democrats: The courageous Truman had called Stalin's bluff and won. Personally, I never agreed with this analysis but the commentators were expounding it and there is always the question of whether, when the commentators say what the people are thinking, they know or care or whether what they are saying is the way the people are thinking or what they want them to think. Certainly it has its propaganda effect.

Acheson's defiance now against any looking into or re-examination of his foreign policy is just too ridiculous for words. And certainly this has not the slightest suggestion when it comes from a man like Taft that we should withdraw our aid and troops from abroad and draw ourselves into a shell. I doubt if even this is contemplated when a man like Everett Dirksen, who defeated Senator Scott Lucas in Illinois, comes forward. The question of "isolationism" is not involved. I am convinced there is a general realization on the part of Republicans that regardless of how desirable isolationism might be, at this late date it is impossible.

The whole question is just how realistically we are using our so-called global leadership, not one of relinquishing it.

There is the very serious question, for example, of whether we, by way of exercising this global leadership, should not finance Chiang Kai-shek to fight it out with the Chinese Reds. This, the supporters of Acheson say, would be just too intolerable. Instead of working for peace we would be promoting war. But we are at war now and in playing one side against the other in China, as the British used to realistically play one country against another, it would be the Chinese who would be doing the fighting and killing each other off.

The peaceful way which Acheson is pursuing means just as surely as the sun rises and sets that Red China will, in the near future, become a member of the United Nations and along with Soviet Russia will dominate Korea in one way or another, instead of permitting herself to be weaned into our orbit against Soviet Russia as the Achesonites think can be done.

This is certainly a question which Senator Taft thinks should be re-examined and some tall soul-searching devoted thereto.

The other question is not one of withdrawing aid from Europe. It is the question of frankly facing the fact that France, its people and its government, is riddled with Communists and the problem is how much money and equipment we should pour in there for these Communists to turn against us when Stalin moves. This same situation is involved in Italy. In these two countries is not involved the proposition of turning our backs but, as Taft has so often said, the problem of what we should do in view of the situation existing in those countries.

I have heard and read a lot about what our Marshall Plan aid has done for these countries, of how it has "contained" Communism but I have not heard one single authority contend that it has reduced the Communist influence in either government in the slightest. This influence in the French government, indeed, is at present preventing the development of the Military Aid Program.

The claim that Marshall Plan aid had "contained" Communism is based on the old argument that hungry people fall easy victims to Communism. We have the spectacle in this country of our well-fed and highly educated intellectuals posing the greatest Communist threat, not the lesser privileged.

Anyway, it is just utterly absurd for Acheson and the Administration to resist a frank re-examination of our whole foreign policy. It is something they are going to get and from men just as honest and capable as they.

How Shall We Overcome Inflation?

By ALAN VALENTINE*

Administrator, Economic Stabilization Agency

Government's Stabilization head declares inflation is reaching the first of several crucial stages, against which we are not putting up an adequate fight. Exhorts public to cooperate in following ways: (1) limitation of profits to reasonable margins, in lieu of what traffic will bear or rigid markups over cost; (2) easing wage demands and increased productivity in lines essential to national security; (3) curtailment of consumption by householders; and (4) acceptance of higher taxes and greater credit restrictions.

Modern warfare has many forms, all unpleasant. We are now nearing the first crucial stage in a war against inflation which may have many crucial stages. I do not need to suggest to this audience how serious a war that is, or why we are fighting it, or why we must win it. We are not winning at present: we are not yet even putting up a good fight. We may lose before we understand as a nation how great the loss would be. Certainly we will not win without greater nationwide understanding, with resultant unity, effort and personal sacrifice. The government cannot win that fight alone: it must have the support of most of the people most of the time.

Dr. Alan Valentine

We have had inflation with us so many years that we are too used to it, in its less vicious form. The growing inflation of 1950 is therefore erected upon an already high level of earlier inflation. We must therefore cope not only with an immediate emergency but with a long-term trend.

Can we do that? I have been listening with deference, as becomes a layman, to our experts in government and business, but in any case part of the answer lies outside finance and economics. It lies in the character of the American people.

The Inflation Cure

The cure of inflation is a test of national character and understanding. Have "We the People" the individual and collective self-control to resist the seductions of rising profits and rising wages—both of illusory value — with which inflation beguiles us? History offers no convincing precedent of free society's success in curbing inflation **except** with the help of government regulations. But whether with or without government controls, inflation can be defeated only by the American people, in unison.

That does not lift the responsibility upon government, and its agents, in this matter. We must help to chart the course: To inform and assist the people: if need be to adopt and enforce controls: and to measure the course of battle. In performing these duties we are not sadists enjoying our little brief authority, but agents of the people, performing as best we can their will through the orders of Congress. Please remember that in months to come! Please remember too that we need and welcome the help of everyone of you, and of business, labor, education and the professions.

Reactions of an Amateur Newcomer

For reasons given, I cannot bring you the wisdom of the experts of government. I can give you only the first reactions of an average American—A little dubious about the omniscience of experts and the omnipotence of government. Perhaps my only qualification for this tough assignment is that I am an average citizen free from preconceived convictions in these matters—an amateur thrown suddenly into the vortex of the inflationary spiral and the Washington whirlpool. This is therefore no policy pronouncement but only the initial reactions of a newcomer to the problem.

Our free economy has shown great capacity, given time enough, to cure its own ailments. But no economy has ever thrown off unassisted so serious an attack of inflation, without great suffering and injustice. No one has suggested that we can afford to let inflation run its full course.

I see no painless cure for inflation. And since there must be some pain I favor seeing it distributed as fairly as possible among all Americans. We must suffer a little, (though not much, since most of what we forego will be ephemeral or inflated in value); we must pay the bill for earlier excesses and for future insurance: and we may have to undergo an operation. Do we need drastic surgery, such as general direct controls? We shall soon know, as we watch the National scene in terms of price and wage increases, and especially as we observe a few test cases now under way in important fields.

It is my present observation that Uncle Sam, the patient, like most other patients, is anxious to convince himself, and us, that no major operation is necessary. I hope he proves right, but it may not be in his own interests to wait until he is so sick he admits it.

A decision to operate, or even to treat the patient, is complicated by the fact that he must not miss a day of work, for upon his daily productivity our security largely depends.

The Fundamentals

Our best and surest means of avoiding this operation are higher taxes and greater credit restriction. Only these measures, and high production, can go to the fundamental cause of inflation—excess purchasing power relative to goods — and remove it. The more effective such measures are the less will be the need for direct restraints on prices and wages But we cannot rely wholly on fiscal and monetary measures. Particular prices or wage rates might rise out of line and threaten an inflationary spiral that fiscal and monetary measures could not wholly restrain.

So the question becomes what to regulate. When, How and how much. These are questions for decision after careful, patient study by qualified people, for our economic system is in complicated adjustment and we must not upset its delicate balance. The problem is not only economic but psychological: Most Americans do not like economic controls; do not work their best under detailed supervision; and will not accept it unless the need is clear. In this twilight zone of simulated peace we lack as a nation that unity of anger, alarm and self-sacrifice that followed Pearl Harbor. Under these circumstances it may be better to risk too little regulation, rather than too much.

Nearly everyone would like to see inflation contained by voluntary action alone. But there is sharp difference of opinion whether this is possible, and on this subject I have observed that many good businessmen—who do not like controls—are as capable of rationalization as anyone else. Actually we have already gone beyond voluntary action in the case of credits and allocations, and even if we could by voluntary action control *most* costs, that might not be good enough. Costs are inter-acting, just as wages and prices inter-act: it takes only one leak to sink the boat. There may be some industries, some companies, some labor groups which will remain out of line: perhaps enough to start a new upward coil in the general spiral of inflation. Can these be adequately policed by the industries of which they are members? If not, can they be adequately held down by selective mandatory controls, and if so, for how long?

In candor, too, do we not all have to recognize that voluntary action is powerless in some markets—markets in which prices do not depend on the individual decisions of anyone? The prices set in these markets govern the prices of many items of food and clothing which are crucial in the consumer's budget. In these markets we shall have to watch carefully the effect of higher taxes and other forms of indirect control. But if these should fail, is there any real alternative to government ceiling prices?

Standards

It is easy to urge ceiling prices and wages, but not easy to formulate fair and workable standards

*An address by Mr. Valentine before Economic Club of New York, Nov. 15, 1950.

to determine them. Here we tread on ground strewn with the skeletons of OPA controversies. Can cost-plus-profit be a workable basis for price ceilings? If all cost increases are simply passed on through price increases, where is any incentive for economy or effifiency? Such a system does not hold down inflation: indeed it makes inflation easier and profits more certain than in our normal uncontrolled competitive system. It even encourages the endless whipsaw of higher wages—higher prices (or higher prices-higher wages) which is our present great concern.

If a cost-plus formula will not hold down prices, what formula will? Can we find a method to control costs, and must not that method also take cognizance of profits, not to regulate them directly but ot estimate their part in the ultimate price of the goods? Cognizance of the margin between cost and price involves some standard of reasonable profits. This is an ideal not easily arrived at, or happily accepted, but its approximation seems essential to control of prices.

Wages and Prices

Wages are a major factor in the price of most commodities, either through the push on costs or through the pull of demand. At the same itme, prices (that is, cost of living) are a major factor in wages. They are mutually dependent in economic theory, mutually dependent in fact, and Congress has made them mutually dependent in the Stabilization Act. Variation and flexibility are permitted in price-wage regulations. There may be exceptions but in most cases wage stabilization must accompany price ceilings. We ask business and industry to apply voluntary controls to prices. Is it not reasonable that we ask labor to apply, with equal firmness, voluntary restraints to wage increases?

Some wages and prices have advanced considerably since last June; others have not. Whatever price levels we may adopt as reference points, must they not be consistent and uniform, regardless of whether they result in setting ceiling prices or rolling back prices? If policy and fariness demand it, we should not shrink from either procedure.

What are the standards by which a proper wage can be determined? I do not find it easy to secure an acceptable, workable definition or rule-of-thumb. Obviously there must be standards which will hold down inflation. Yet we must not ask labor to assume an undue burden in the war against inflation, or undergo a sacrifice beyond that accepted by other elements of society. As a matter of human psychology and quite regardless of economic justice, we cannot expect the working man to restrain his wage demands if he reads almost daily accounts of record profits, even though such accounts may ignore many factors that make real profits less than they seem.

Will it be business or labor which will set the nation the first examples of restraint, and thus break the upward spiral of inflation? If neither sets example, what alternative has government to price and wage controls?

Inflation and Added Inequities

There have always been inequities in every economic system. Inflation, like war, brings added inequities. This is not and cannot be a moment in which social reform has top priority. This is and mu • be a moment in which national security and hence national production come first. The Stabilization Agency I represent was not created for social reform, but to carry out the mission of stabilization with which Congress and the Presdient have charged us. We shall be deeply sympathetic with the plight of the individual man or company or industry but under our commission the economic welfare of all the people has a higher priority.

War and other grave emergencies force adjustments in our sense of values. At such times, for example, we think less of our comfort and more of our safety. At such times too, we may need to revise a little our normal thinking about profits and wages. When inflation is the enemy, the perfect balance sheet, or expansion wholly out of profits, or large reserves against future contingencies, are not adequate justifications for an increase in prices. When inflation is the enemy, a labor policy of gaining whatever wage increases or other benefits the traffic will bear is not adequate justification for an increase in wages. Otherwise, there will be no end to this spiral of inflation: otherwise there can be no alternative and perhaps no limit to mandatory controls of prices and wages.

Questions to Businessmen

From these initial reactions I emerge with some questions, and I know of no group better qualified to help with the answers:

Will business men be willing to stop basing their prices on what the market will bear and limit themselves to reasonable profit margins?

Will business men be willing, in estimating costs, to stop borrowing trouble from the future—to stop basing their estimates on fear of the worst in 1951? Sufficient unto the day is the inflation thereof.

Should not business firms that have increased prices since the Korean outbreak now reexamine their situation and reduce prices wherever possible, and especially in cases in which price increases reflect more than increases in costs actually incurred?

From here on out should not all businesses with generous earnings and good financial position be prepared to hold their prices and accept some compression of earnings, if costs should rise, in the interest of general stabilization?

Should not wage earners accept for the time something less than they might gain by drastic means, and understand why this restraint is patriotic?

Should they not be ready to go all out for increased production of goods essential to national security?

Should not American women, who determine most purchases of consumer goods, manage their households and their budgets with greater restraint and less desire to keep up with the Jones'? And should not the Jones' be willing to keep down with the rest of us?

Should not business, labor and consumers be willing to accept credit restrictions adequate to prevent inflationary expansion of all kinds of credits?

Finally, must not higher taxes be put at the top of our list of anti-inflation measures? Have we got the intelligence and the nerve to tax ourselves as we need to, for our own good?

Clearly, if the task of stabilization is to be accomplished, industry, labor and the public must understand that each must exercise restraint. They must all forego some immediate advantages for their long-term welfare. I hope that the inflationary trend can be checked by sound taxation and credit measures, coupled with voluntary cooperation on the part of business, labor and the public. We shall rely on these measures just as far as they can be made effective. But we must not and will not hesitate to use mandatory direct controls to deal with any recalcitrant groups, and in such areas as voluntary measures have failed.

With First Boston

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Mansfield R. Cleary, Jr. has become affiliated with The First Boston Corporation, 231 South La Salle Street.

Joins Conolly Staff

(Special to THE FINANCIAL CHRONICLE)

WAUKEGAN, Ill.—Susan Meyer has joined the staff of Robert C. Conolly, 223 Washington Street. Miss Meyer was formerly with Glore, Forgan & Co.

A Dow Theory Appraisal

By F. P. GOODRICH

Harris, Upham & Co.
Members, New York Stock Exchange

Market analyst, commenting on the chartered pattern in the Dow Jones Averages, foresees an early test of the direction of the Major Trend. Concludes from technical evidence that bull market is now substantially ended.

In the matter of visual illustrations portrayed in the recent market plottings, the following are pertinent:—

F. P. Goodrich

(A) After the severe decline from mid-June, the Junior Index resumed its robust leadership into an emphatic new high — followed by a similar action on the part of the *Companion Indicator* (Industrial Average) when it surmounted its previous top at 228.38.

(B) That movement gave a visual illustration of a *reaffirmation* (not an initial confirmation). It gave assurance that the direction of the Major Trend had *not* turned down at mid-June (when the severe decline raised justification for suspicion that the bull market might have ended at 228.38) and reaffirmed that the direction of the Major Trend was still upward—to that point of new high attainment.

An Important Premise

Those plottings wherein the *Dual Indicators* both attained emphatic new highs in October illustrate and prescribe certain technical facts: (1) that the severe decline after mid-June is correctly classified as an orthodox secondary contra movement in a bull market; (2) that the upward movement from the July lows is a third leg in the bull market to date. Such technical facts constitute a fundamental and an accepted *premise* very important in now formulating a reappraisal of the market's status:

(I) The reaffirmation conveyed *no* assurance as to whether or not the Major Trend will substantially surpass or exceed the new top recorded in performing that reaffirmation.

(II) It conveyed *no* assurances as to how much further in degree or how much longer in time the upward Major Trend will carry.

Those implications—I and II—were not only to be accepted as correct but they acquired a special importance when the reaffirmation brought the indicators to a new high area for a 20-year period.

The Shareholders' Problem

As the market's Major Trend had progressed upward for some 16 months into a new high territory for two decades, a serious question arose for those concerned with common stock: *What Appropriate Procedure?*

It seems to me that an approach to this question should be one of very realistic objectivity — especially at such a high market level historically. I, for one, choose to be so objective as virtually to disregard all the rosy pictures verbally painted by numerous economists. I hold no disrespect for sound and expert economists — they serve a useful function in the scheme of things—but under an objective review of their historical assertions we find glaring instances of misguidance for owners of common stocks. Their views expressed at important peak areas in the stock market's long-term swings in the Major Trend have proved to be undependable and meretricious for contemporary holders of common stocks.

An outstanding example was provided by the renowned Prof. Irving Fisher in October, 1929, when he propounded his concept that the country had attained a permanently high plateau of prosperity. Shortly thereafter the stock market started its prolonged plunge and business entered one of its worst depressions. Again in 1937 an array of experts foretold uninterrupted continuance of a boom period.

Regardless of personalities and the high esteem in which their views were held, these experts left an unenviable record as guides in foretelling the ensuing movements in common stock values. It can be deemed all too coincidental whenever their prolific optimism coincides with a high point historically in the Major Trend peaks of the stock market. Far more dependable from a combination of two strictly objective perspectives:

(1) a closely focused examination of price actions; (2) a long-range view of the wide swings in the Major Trend historically.

A Close-Up View

After a 16 months' rise—in three primary movements—from 161 (mid-1949) — there was revealed recently at about the 230 level a considerable churning around with no evidenced ability to make further upward progress. That fact strongly suggested an exhaustion of the power of the upward Major Trend; an abundance of stock for sale in relation to the volume of demand. Price vitality was too much confined to scattered individual issues—incident to some form of special news such as splits or extra dividend announcements. All too large a segment of the public interest centered around such issues—essentially a hit-and-run calibre of buying prompted by a mania for scalping quick profits by traders.

Divorced from that temporary type of trading and dependent solely on public buying of the long-term investment type, this market would reveal a far different and less impressive complexion. It appears to be correct analysis to say that we are witnessing: (1) weak buying and (2) distribution.

As to the arguments used to support predictions of still higher prices that: (a) yields are high and (b) price-times-earnings ratios are too low—it is my conviction that this thesis has become thoroughly shopworn. Correctly interpreted, as I see it, the market's true message might be summarized as follows:

(I) Prospectively yields on future dividends—in their net retained amounts after the Tax Collector takes his toll—are not really high.

(II) Prospectively those yields (ex-taxes) are not attractive if projected against the potentials of substantial shrinkage in market values over the next two years.

An example might be stated as follows: a $5.00 dividend stock bought now at 80 (yield 6% before taxes) is 20 to 30 points overpriced on a basis of a to-be-retained dividend of only $2.50 for the taxpayer in a 50% bracket. A $30 loss in Capital value over a two-year period—with only $5.00 in tax free dividends collected—is a losing proposition.

Since the new high plotted by the early October reaffirmation, market action has revealed a tendency to show diminution in volume on rallies and acceleration on declines—downward being the line of least resistance. Such symptoms suggest that astute investors have begun to sense the realities of the above noted losing proposition and the feasibility of sacrificing even generous transitory dividends in order to fortify Capital against potential losses of larger dimensions. Additionally taxes on long-term Capital gains are much lower than taxes on Income for 1950—and income tax rates much higher for 1951-52.

A Longer Range View

From a long-range perspective, one can derive a conclusion which I believe is very essential at this time for a well-balanced appraisal. Any one of numerous charts will serve the purpose—preferably one which shows the vicissitudes in the Major Trends' extreme points as far back as 1929.

If nothing more is derived from such a panorama of the peak oscillations, take note at least of these fundamental facts: (a) the tendency has been true that each high upswing has been invariably followed by an ensuing down swing; (b) the degree or intensity of a robust upswing has tended to be translated into a somewhat corresponding degree or intensity in the ensuing contra down swing. Note also: (1) the top areas have always been enshrouded in an environment of proclaimed business optimism and (2) the ensuing bear market always starts *before* a decline in business has become visible.

In retrospect, these market swings have coincided with business booms and recessions or depressions. Inescapable is the fact that a bear market is contemporary with and contributes to a business recession—they are inseparable companions.

A further point to be noted in this long-range perspective is the fair degree of time precision discernible in the peaks of these oscillations: about a 10-year span from one extreme low to the next. From the last low point—1942—the prevailing time schedule suggests 1952-1953 as the next low point.

A combination of these two perspectives assures a close approach to a sound concept into which objectivity rightfully imparts a good measure of realism in one's appraisal of the market's true status and to afford some measure of practical guidance with respect to the matter of what procedure is prudent.

An imposing question as to one's procedure involves not so much what the market's action may be in any one session or in one week, but more important: is the *main trend* of stock prices over the next two years to be (1) further upward or (2) downward. In other words: is the *bull market* to carry further or has the Major Trend turned down—a bear market?

Viewed objectively, I believe a composite version from both perspectives—as herein discussed—is that the Major Trend upswing is essentially completed and that a bear market is in the making. That is a version which I stated in my market comment of Oct. 3, 1950, shortly before the highest point so far attained by the major trend.

Dependability of Dow's Theory Undergoing a Test

Readers might derive an impression that I have an obsession on this subject of Dow's Theory. I respect it as a semi-scientific Thesis which has withstood the severe tests of a half-century—booms and depressions; wars and panics. No other Thesis has withstood such a time test.

Among the attributes possessed by the Theory, the one crucial virtue involves a function of reasonably prompt detection of a *change of direction* in the Major Trend. In terms of relative importance of its virtues, the Theory undergoes its most severe test when an upward Major Trend has attained a high point historically and is preparing to *reverse* its direction.

Our detection of such a change of direction is hampered by our own human tendencies to reject such a contemplation — usually because a then prevailing condition of business prosperity affords no apparent justification.

A recent and vivid example was witnessed when the upward Major Trend swing changed its direction in 1946. Most of the supposedly alert technicians failed completely to detect promptly the Dow Theory signal confirming that bear market start in 1946.

The recent and current charted plottings seem to be setting the stage for another of these tests of this crowning virtue of Dow's Theory. As of this writing, the averages have almost re-attained their previous tops made just before this most recent decline. Perhaps before this article gets into print one or both of the *Dual Indicators* may have surmounted the previous tops.

Before such an event however, it is good technique to note that the late-October to early-November decline was of *secondary* scope and retraced about 30% of the third and last primary rise. A test of its virtues can eventuate if: (1) both *Indicators* do *not* surpass their respective October high points and thereafter (2) both proceed downward to the extent of penetrating jointly both Ind. 222.52 and Rail 64.48—accompanied by accelerated volume.

By observing these facts in the current pattern and by envisioning just such a possible set of plottings over the moderate term, the observer places himself in a position to detect promptly a bear market signal.

Admittedly these current plottings present some puzzling aspects and the impending movements will be highly interesting as a matter of technical studies. And a point of cricuial interest will again be the test of dependability of the message in the unfolding patterns under Dow Theory precepts *at a time* when business is again at booming rates of activity—earnings high—and dividends present a rosy picture.

The current environment is seemingly one for justifiable optimism for continued high tempo in booming business, high corporate earnings and even further stimulation from military preparedness. In short there seem to be *no* justifications for suspicion that the upward Major Trend should undergo a change of direction. In fact some of the day-by-day actions of individual stocks suggests that the market has the power to attain new heights in the averages. There appear to be sound reasonings to support those who are currently harboring that line of thinking.

By the same token, it seems currently out of order for the technician to entertain any suspicion of a change in the direction of the Major Trend. Should the plottings of the *Dual Indicators* over the moderate term however prescribe a Dow Theory bear market signal — in a pattern closely conforming with the above as outlined—we would again be presented with an instance of a crucial test of a Dow Theory virtue and another instance in which strictly technical discernments afforded greater dependability than purely generalized reasoning based solely on currently prevailing business optimism. On the other hand, should both *Indicators* surmount emphatically their previous tops, they will be plotting a *fourth* leg or primary movement and these technical suspicions of a top having been already plotted will prove to have been premature. I say premature because *no* Major Trend has ever continued indefinitely in a one-way direction. And in that event a premature contemplation of a bear market signal would be no discredit to Dow's Theory—merely a criticism of the technician who was attempting to *anticipate* such a Dow Theory signal

I hope I have presented with some degree of clarity and fairness both sides to the two schools of thought justifiably present at this point as well as reasons for anticipating a *test of* a Dow Theory Precept. The outcome will embody points of interest to both schools of thought.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Bank Stocks—Discussion of their prospects for the conservative investor—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

How to Figure Your 1950 Federal Tax on Security Profits and Losses—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Also available is a leaflet of **Switch Suggestions.**

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Petroleum Industry Booms Again—Study—Calvin Bullock, 1 Wall Street, New York 5, N. Y.

Special Call Offerings—Explanatory booklet—Thomas, Haab & Botts, 50 Broadway, New York 4, New York.

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American Express Company—Follow-up memorandum — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

American Stores Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Argo Oil Corporation—Analysis—Russ & Co., Inc., Alamo National Building, San Antonio 5, Tex.

Associated Transport, Inc.—Memorandum — Homer O'Connell & Co., 25 Broad Street, New York 4, N. Y.

Baltimore & Ohio Railroad—Circular—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available is a circular on **Ohio Edison Co.** and **Rohm & Haas Co.**

Boston Terminal—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available are reviews of

Food Machinery & Chemical and **Koppers Company.**

Briggs & Stratton Corporation—Survey—In curent issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also in the same issue is a study of **National Aluminate Corporation.**

Central Public Utility Corp., Inc.—Circular—F. S. Yantis & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

Chicago, Rock Island & Pacific—Circular—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Also available is a bulletin on **United Gas Corporation.**

Eastern Air Lines—Circular—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y.

Electric Bond & Share—Circular—Bache & Co., 36 Wall Street, New York 5, N. Y.

Electric Bond & Share Co.—Circular—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Also available is a detailed circular on **Republic Natural Gas.**

Famous Players Canadian Corporation Limited—Review—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada, and Royal Bank Building, Toronto, Ont., Canada.

Also available is a review of **Canadian Canners Limited**

Giddings & Lewis Machine Tool Co.—**Analysis**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

International Cellucotton Products—Brief memorandum—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Pfaudler Co.—Memorandum—George D. B. Bonbright & Co., Power Building, Rochester 14, New York.

Public Service Electric & Gas Co.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Rexall Drug, Inc.—Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Riverside Cement Company—Card memorandum—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Stokely-Van Camp, Inc.—Bulletin—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Time, Inc.—Bulletin—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

United Air Lines, Inc.—A study and appraisal—Selig Altschul, 25 Broad Street, New York 4, N. Y.

United Electric Coal Companies—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

U. S. Thermo Control—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is an analysis of **Simplex Paper.**

With Douglass & Co.

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Philip R. Baus has become affiliated with Douglass & Co., 153 North Robertson Boulevard. He was formerly with Waddell & Reed, Inc.

Waddell & Reed Add

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Robert C. Smith has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

No Justification for Foreign Trade Restraints!

By A. M. STRONG*

President, American National Bank & Trust Co., Chicago, Ill.

Midwest banker, asserting foreign trade is a necessity to all countries, holds there is no justification for restraints, and deplores existence of tariffs, allocations and exchange controls. Points out world rearmament program creates inflationary pressure and cites recent world-wide price advances. Says imports and defense production abroad should be fully utilized to reduce inflationary pressure at home.

Foreign trade is a necessity to all the countries of the world because each country has different characteristics and climatic conditions, different resources. Minerals, agricultural products and animals abundant in one place are scarce in another. Without foreign trade the quantity and variety of goods available would be drastically reduced.

A. M. Strong

The importance of our export trade to our national economy and well-being is well known. Many of our industries employing and supporting several million people depend to a great extent upon sales to foreigners. In 1949 our industrial and agricultural enterprises sold a substantial share of their products in foreign countries. Wheat exports were 39% of the entire production; raw cotton, 32.6%; machine tools, 32.2%; paraffin wax, 30.8%; leaf tobacco, 25.6%; lubricating oil, 25%; turpentine, 24.7%; lard, 23.7%; copper, 17.8%; soybean oil, 17.2%; tinplate, 15.1%; petroleum coke, 14.4%; condensed and dried milk, 12.7%; structural shapes, 12.4%; printcloth, 11.9%; wrought iron and steel products, 11.8%; anthracite coal, 11.6%; rails, 10.9%; soybeans, 10.3%; cotton cloth, 10%.

The United States, with its enormous resources and great capacity for production, must import a great variety of raw materials. There are many finished products which we can obtain economically from other countries. Many primary goods found only abroad are indispensable to our economy. To meet our requirements of industrial raw materials and foodstuffs, we must import sugar, coffee, cocoa, tea, drugs, spices, manganese, nickel, bauxite, tin, copper, rubber, furs, wool, silk, hides and skins, burlap, bristles, shellac, essential oils, jute, chicle, cork and many other products. Imports constitute the largest source of dollar exchange for foreign countries. Consequently, our ability to sell depends mainly upon the volume of goods we purchase.

With few exceptions, the countries of the world maintain controls over their moneys and controls over their international trade. Most foreign moneys are no longer freely convertible into American dollars. In all countries including the United States no enterprise is hampered as much by red tape, regulations and prohibitions as is foreign trade. The foreign trader is subject to constantly changing governmental regulations. He must obtain licenses, adhere to quotas, file declarations and is placed under strict supervision as though he were engaged in some undesirable business. The American exporter is subject to foreign government regulations. He must be certain that an import license and permit to transfer the money was granted to the purchaser in the foreign country. Before making a shipment, he must comply with consular requirements that differ for each country.

There is no justification for this restraint upon a business that provides a livelihood to approximately six million people in our country and to a great many millions all over the world—a business which is absolutely essential to every country's welfare. This infringement by government upon private enterprise retards the normal flow of goods between countries. Every effort should be made to free foreign trade from government interference.

In the early period of international trade, goods were bartered. Enterprising merchants loaded their rafts or boats with goods produced in their country for exchange for the products of other countries that could be profitably sold at home. Today's foreign trade is conducted on an entirely different basis and each deal involves a monetary transaction. The buyer must pay for his goods and the seller must receive payment through the medium of a bank.

While the banker played an important role in international commerce throughout the ages, extensive bank financing of foreign trade began only in the 19th century in England and in the 20th century in the United States. The Bill of Exchange Act became a law in England in 1882. The United States banks were granted acceptance privileges with the adoption of the Federal Reserve Act in 1913.

Banks were reluctant at the outset to engage in this new business which was little known to them, and this reluctance is still displayed today by many banks throughout the country. Out of a total of 14,650 banks, approximately 150, or about 1%, engage in foreign commercial business. The financing of shipments under the Economic Cooperation Administration has so far been allocated to only 60 banks—less than ½% of American banks participate in this business. The outstanding reason for this reluctance is the small remuneration received by banks for foreign financing and other transactions.

Effects of Korean War

The Korean War and the Defense Program will have important repercussions on international trade. The manufacture of war implements will require the importation of more raw materials from abroad; on the other hand, countries which lack industrial equipment and know how necessary to provide for their defense needs will have to obtain the equipment and finished products from abroad.

The rearmament program of the United States and the European nations will create inflationary pressure throughout the world. The depletion of national wealth by using raw materials for war purposes and the diversion of manpower to war production will diminish the supply of consumer goods. The availability of money will be much greater than the supply of goods with a resultant advance in prices. The wholesale price index has more than doubled since 1937 in most countries and where depreciation of money has taken place, prices advanced 20 to 50 times.

Wholesale Prices 1937=100

	July-August, 1950
Australia	214
Belgium	373
Brazil	421
Canada	199
Denmark	245
France	2,480
India	383
Italy	4,920
Mexico	326
Spain	487
Switzerland	198
United Kingdom	243
United States	193

In the United States the supply of money is at a high point. Our money circulation in 1940 was about $9 billion, in August of 1950 it was over $27 billion. Bank deposits, which in 1939 amounted to approximately $68 billion, increased to $165 billion in August, 1950. Prices of major commodities in the United States have advanced greatly during the past decade.

	1938	September, 1950
Bacon—100 lbs.	$22.70	$49.30
Butter—100 lbs.	28.00	63.30
Cocoa—100 lbs.	5.30	42.03
Coffee—100 lbs.	7.80	56.06
Copra—100 lbs.	1.95	11.12
Sugar—100 lbs.	4.49	8.08
Tea—100 lbs.	28.00	53.06
Wheat—per bushel	.78	2.19
Burlap—per 100 yards	4.90	25.09
Cotton—per 100 lbs.	9.00	40.50
Silk—per lb.	1.71	3.40
Wool (scoured) 100 lbs.	50.00	272.00
Copper—100 lbs.	10.22	23.25
Steel (long ton)	35.40	54.00
Tin—100 lbs.	42.30	100.40
Rubber (natural)	14.60	55.80
Jute (short ton)	.86	3.16
Tobacco—100 lbs.	21.40	48.20

The great increase in purchasing power and the curtailment of civilian production is creating inflation which will adversely affect the living standards of our people. Inflation, as you know, is the disease which affects all accumulated values; strikes at incomes, pensions and insurance. It is the greatest enemy of private enterprise. The simple cure for inflation is less governmental spending. However, there is little likelihood that our huge expenditures will be curtailed.

Imports vs. Inflation

The inflationary pressure of the diminishing supply of civilian goods can be eased by increased imports. Large imports of consumer goods during the rearmament period will materially help check runaway prices for such goods. One of the greatest obstacles to imports is our archaic customs service, our hit-and-miss tariffs. Perhaps it would be well to suspend most of the duties during the emergency period. Our income from customs is contributing very little to our national budget.

The inflationary pressure of the rearmament program can also be eased if the Mutual Defense Assistance nations will participate in the production of armaments and implements needed for their defense. Such participation will create employment abroad and conserve our manpower. These nations should be assured the raw materials and machine tools necessary for such production.

The Economic Cooperation Administration should be designated to handle the greatest possible share of the $6 billion allocated for European defense and supervise the procurement of raw materials and industrial equipment needed by these countries to produce the defense implements. The ECA should also assist the European nations by using counterpart funds to build up secondary industries in Europe and to strengthen existing industries that can participate in the rearmament program.

Inflation is one of the greatest dangers confronting our nation today. Imports and defense production abroad should be fully utilized to reduce this danger. The nations that have been receiving Marshall Plan assistance and are now receiving our aid for their defense must fully participate in the defense effort. After all, Communism is closer to their boundaries than it is to ours. Each nation must fulfill a task best suited to its capacities and traditions.

We must also remember that foreign trade is an important link in the friendly ties between nations. It is the foundation of world peace. We must, therefore, guard foreign trade against excessive government interference. We must keep it a private enterprise unencumbered by controls which have outlived their purpose.

*An address by Mr. Ward before the World Trade Conference, Norfolk, Va., Nov. 16, 1950.

Ralph T. Ryan Joins John L. Ahbe & Co.

(Special to The Financial Chronicle)

PALM BEACH, Fla.—Ralph T. Ryan has become associated with John L. Ahbe & Company, 268 South County Road. He was formerly Palm Beach representative for Atwill and Company. In the past he was with D. M. S. Hegarty & Co., Inc. in New York City and with R. S. Dickson & Co. in New York.

Scheffmeyer Partner

Scheffmeyer & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Harry C. Thompson to partnership on Dec. 1.

Snyder Explains Excess Profits Tax Proposals

Treasury Secretary tells House Ways and Means Committee a 75% Excess Profits tax, with a base period of 1946-1949 inclusive and with allowance for changes in invested capital, would bring $4 billion additional revenue and could be readily met from current corporations earnings.

Secretary of the Treasury, John W. Snyder appeared before the House Ways and Means Committee on Sept. 15 in defense of the Administration's proposal for an excess profits tax to aid in financing the current defense program. The Secretary, after criticizing alternative proposals, such as an additional tax on corporation profits, contended that a 75% excess profits tax based on average earnings for the period 1946-1949, inclusive, would not dangerously impair corporation earnings and would produce the $4 billion of additional revenue required to place the Federal Government on a pay-as-you-go basis.

John W. Snyder

In the course of his statement outlining his proposals, Secretary Snyder stated:

The extensive support given the principle of excess profits taxation by this Congress when it considered the interim tax bill suggests that the need for a special tax is recognized by the Congress.

The taxation of profits, however, is not without its difficulties. The issue comes down to one of weighing these difficulties against the inequities involved in substantial increases in the taxes on the profits of all corporations. Many of the difficulties, however, can be tempered by benefitting from past experience to increase equity among taxpayers and to reduce the burden of tax administration.

In searching for the most satisfactory approach to this problem, the Department and the Staff of the Joint Committee have examined a variety of possibilities. The Treasury Staff has analyzed the experience of a large number of corporations under the last excess profits tax and examined the impact of different approaches on various types of corporations.

These investigations suggest that in developing a basis for profits taxation it will be necessary to rely largely on the past earnings experience of corporations and to look to the rate of return on invested capital as a guide for taxation of those corporations with unsatisfactory earnings experience.

If this approach is adopted, consideration should be given to the fundamental changes in the World War II tax that seem most desirable, particularly from the point of view of its impact on specific firms and specific industries under current conditions.

World War II Excess Profits Tax

A brief review of the World War II excess profits tax may be helpful as a setting for the discussion of the changes suggested for your consideration.

The wartime tax excluded most small corporations by providing a specific exemption of $10,000. This was in addition to the excess profits credit allowed each corporation. Corporations had the choice of computing their credit on the basis of 95% of the average earnings for the base period years 1936-39, or on the basis of a percentage of invested capital. The rates allowed on invested capital varied with the amount of capital. There were numerous exceptions to these general rules designed to relieve hardship.

During World War II, the maximum number of corporations subject to excess profits tax was 68,000 in 1943, or about a quarter of all corporations subject to income tax for that year. Because of the relatively low rate of earnings on capital experienced in the base period years, little more than a third (35%) of the corporations subject to excess profits tax elected the base period earnings credit in that year. However, the excess profits tax of these corporations accounted for 54% of the total tax.

After 1943 the tax was imposed at a flat rate of 95%, but provision was made for a postwar credit of 10% which reduced the net tax rate to 85.5%. The over-all average effective rate, before the postwar credit, was 80%. The net yield, or the amount by which the receipts from this tax exceeded the amount that would have been raised from the corporation income tax alone, was about $16 billion.

The Base Period Earnings Credit

The recent profit experience of corporations shows that in the case of most corporations an earnings credit based on recent years would provide a reasonable method of arriving at defense profits. This represents an important change from the situation when the World War II law was formulated. In view of the relatively lower level of profits in the years 1936-1939, the majority of corporations secured a higher excess profits credit under the invested capital method than under the base period earnings method.

In view of the dynamic expansion of the economy in recent times, only an up-to-date period will provide an adequate measure of defense profits. The 1936-1939 base period of the previous law cannot be restored because it relates to a period when gross national product was only 25% of the present level and total profits only 13%. At least 45% of existing corporations have been organized since that time. Profit levels for the war years are also obsolete in view of the expansion in the economy. Moreover, the profits of different industries and corporations at that time reflected highly abnormal relationships.

The fact that most corporations would now rely upon a base period earnings credit is an important consideration in selecting a base period which would achieve the greatest equity and minimize the need for special adjustment.

The years since the war, 1946-1949, afford a broad and representative basis for appraising the earnings performance of individual corporations. It is well recognized, of course, that no one period provides for every business an entirely satisfactory measure of normal profits. However, these four years cover an exceptional period of sustained prosperity, giving an unusually large proportion of corporations an opportunity to earn high profits.

The inclusion of the year 1950 in the base period should be rejected since it already reflects to an important degree the impact of defense expenditures. To a lesser degree, this objection is applicable to all recent years when governmental expenditures for defense and foreign aid have been substantial.

Although the profit experience of the years 1946-49 can serve as a general guide to normal earnings, irregularities did exist. The profits of some industries were depressed in 1946 because of reconversion from war to peacetime production. Other industries earned substantially higher profits in 1946 than later years (Table 7). Omission of 1946 from the base period would penalize these firms and industries for their prompt fulfillment of consumer needs following the war.

The fairest method of recognizing these differences would be to allow the taxpayer to use the best three of the four years. This would be an improvement over the method used in World War II, which allowed a taxpayer with a bad year to substitute for his single lowest year, 75% of the average income of the remaining three years. The suggested exclusion of the poorest year would treat this type of case more generously.

The proposed treatment would increase the average base period earnings by $6\frac{1}{4}$% for those who under the old law would have qualified for an adjustment under the 75% rule. It would also be advantageous to a number of taxpayers whose income in the lowest year is more than 75% of the average of the remaining years and who obtained no relief under the wartime rule. For example, a corporation with earnings of $10 million in the lowest year and $20, $30 and $40 million in the other three years would use the average of the three highest years or $30 million. The wartime rule would have substituted 75% of this $30 million average, or $22.5 million, for the lowest year. This would result in a credit of $28.1 million or nearly $2 million less than under the proposal to average the best three years.

It should be noted that such a change would necessarily reduce the tax base since it would liberalize the credit for some corporations without reducing the credit for others. However, it would be more effective in minimizing possible grievances and relief claims.

Our studies also suggest the desirability of liberalizing the treatment of corporations with deficits in some of the base period years. This would be of considerable importance to some taxpayers, and would reduce the number of taxpayers seeking general relief.

Another provision the Committee may wish to consider is the treatment of corporations which were increasing their capacity to earn during the base period and, in the normal course of events, might be expected to continue growing. In World War II, this type of situation was handled by what is known as the growth formula. With the elimination of the taxpayer's worst year under the proposed option to select the three best years, less need remains for this adjustment. However, it may be necessary to make some allowance for cases where substantial investment in the latter part of the base period is not adequately reflected in base period profits.

Invested Capital Credit

Due to the large increase in the level of profits since the 1936-39 period an invested capital credit would be used less frequently in the present situation than during the last war. At that time this credit carried the burden of protecting many industries that had been operating under depressed conditions prior to the war.

Provision for an equitable invested capital credit is still essential as a relief measure. It would apply in three principal types of situations. First, certain industries may earn a low rate of return on capital which though high in relation to preceding earnings is low by generally accepted standards; second, there are industries or individual firms that failed to participate in the general prosperity during the proposed base period years; third, it is necessary to provide a basis for determining the tax status of new businesses.

To meet present requirements, the invested capital credit requires substantial revision.

Rate on Invested Capital

No single rate of return on invested capital will allow for the varied conditions peculiar to different businesses. The statutory rates must aim at the best general level in the light of existing circumstances. When the World War II tax was initiated, the invested capital credit was based on a flat allowance of 8%. It developed that this rate exempted all or most of the large corporations in a number of basic industries and therefore in subsequent acts the Congress reduced the allowance for larger corporations. The principle of varying the allowance according to size is believed to be sound and should be continued.

The invested capital allowances in the last version of the World War II tax appear to be low for present conditions. These allowances were:

On the first $5 million of invested capital	8%
On the next $5 million	6
On the amount of invested capital above $10 million	5

Under these rates few corporations would now find the invested capital option useful. Unless these rates are increased the alternative credit based on invested capital would not provide a significant measure of relief.

As indicated earlier in my statement, the average rate of return on equity capital for manufacturing corporations, before income tax, has more than doubled since the 1936-39 period. In 1939 nearly a third of the manufacturing companies had a return of less than 5% on equity capital. By 1947 the proportion of such firms had been reduced to about one-tenth (Table 8). It is clear that the use of the statutory rates of return allowed at the termination of the World War II tax would discriminate against companies with low income in the base period because the bulk of corporations have enjoyed relatively much higher rates of return.

In revising the allowances under the invested capital credit, a balance must be found between two considerations which would lead to widely different rates. The first requires a rate sufficiently high to protect normal growth of new business and firms which normally earn relatively higher rates of return. If the invested capital credit is too low to be available to any substantial proportion of corporations falling in these categories, more corporations will be forced to have recourse to general relief in obtaining a reasonable minimum earnings base exempted from profits taxation. In the absence of an adequate invested capital credit, industries of great importance in the defense effort might be adversely affected.

At the same time it is also important to avoid invested capital allowances so high that industries characteristically having a relatively low rate of return might never become subject to defense profits taxation regardless of the expansion in their profits. Such a situation might arise in heavily capitalized industries. It may also affect those industries in which favorable treatment under the income tax law results in a rate of return computed for income tax much below the rate of return actually earned. Unless the invested capital credit is adjusted to the realities of the situation, large windfalls might accrue to heavily capitalized industries.

Careful studies of the effect of different possible allowances under the invested capital credit suggest that the allowances provided at the end of World War II should be increased by about one-fourth to one-third. The principle of differentiation in allowances according to the size of the invested capital of a corporation should be retained. With this differentiation, an increased invested capital credit will afford effective relief for those industries and corporations that have lagged in the general expansion of earnings and will adequately protect existing investment in most cases.

Borrowed Capital Allowance

The World War II allowance for borrowed capital should be basically revised. That allowance provided for including 50% of borrowed capital in invested capital with a corresponding disallowance of 50% of the deduction for interest paid.

An allowance for borrowed capital gives recognition to the risk involved where the earnings on equity capital are subject to interest payments on debt. The amount of earnings remaining for equity capital under such conditions is subject to wider fluctuations than where borrowed capital is not employed. In the interest of equity, however, a revision of this statutory allowance is required.

The World War II allowance gave taxpayers the benefit of one-half the difference between the statutory rate on equity capital and the rate of interest on borrowed capital. This favored the larger corporations with well-established credit positions, able to borrow at the lowest interest rates. Under the World War II provision, for example, a large company having an equity capital allowance of 6% and borrowing at an interest rate of 3% would have its excess profits credit increased by one-half the difference between 6% and 3%, or $1\frac{1}{2}$% of the amount of its borrowed capital. In contrast, a small corporation with a poor credit rating borrowing at 7% could have received a benefit equal to one-half the difference between this rate and the highest equity capital allowance of 8%, or only $\frac{1}{2}$ of 1% on the borrowed capital. If its interest rate had been more than 8% it would have been penalized.

This inequity would be removed by adopting an allowance for borrowed capital proportionate to the interest rate. This would give recognition to the fact that high interest rates generally reflect greater risk. To provide reasonable protection in these cases, it is suggested that the invested capital credit be increased by about 25 to 35% of the amount of interest paid on borrowed capital, and no reduction be made in the interest deduction. To prevent abuse, the maximum allowance should be limited to 2% of the borrowed capital in addition to the interest deduction.

In general, this revision would make the invested capital credit more favorable to small corporations which must borrow at higher rates of interest than those which can borrow on very favorable terms.

Impaired Capital

Under the World War II law, invested capital included capital and surplus paid in to the company regardless of whether such capital still existed or had previously been lost. It is well known that a number of large corporations have at some time in their history experienced large losses of capital. The former law, nevertheless, counted as existing capital much that had been lost in remote periods. This treatment created an inequity by giving such corporations an important tax ad-

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Let's Have a Stiff Defense Tax Instead of Excess Profits Levy

By J. CAMERON THOMSON*

President Northwest Bancorporation, and Chairman of Committee for Economic Development's Subcommittee on Fiscal, Monetary, and Debt Management

Spokesman for business group, in reply to Secretary Snyder, declares Treasury's proposals do not define "excess" profits nor a proper base, and would actually "weaken America." Maintaining Congress should not be forced to choose between an excess profits levy and no tax at all, advocates instead a "Defense Profits Tax" of 15%, giving combined rate of 53%.

I do not believe that this Committee has ever met in more critical circumstances. The freedom, the security, the lives of all of us depend upon the strength of America. Today we are the strongest nation in the world—in large part and perhaps decisively because of our unmatched industrial power. Whether or not we still have this great advantage five years from now—or 10 years from now—will depend in large measure upon the action of this Committee.

J. C. Thomson

There are, in my opinion, two ways in which America's economic strength could be seriously weakened, both of which come back to this Committee. One is that we should fail to make full use of fiscal and monetary policies adequate to restrain inflation. If this happens we shall find our economy in a strait-jacket of controls that prevents its growth and saps its efficiency. The other danger is that we shall impose taxes of a kind that deprive the economic system of the funds needed for its vigorous expansion and weaken the drive for more productivity and in the long run reduce our ability to finance an adequate defense program. It is the obligation of this Committee, as I see it, to guide the country on the difficult and narrow path between these dangers.

In the short time allotted to me today I cannot discuss tax policy as it should be discussed—as one element of a program that should also include action to curb government expenditures, to promote saving and to restrict credit. The Research and Policy Committee of CED[1] has just issued a policy statement that discusses all of these questions. I have distributed copies of this statement, entitled "Paying for Defense" to the members of this Committee. I commend it to your attention and should like to have it considered part of my testimony. My remarks today will be addressed to the immediate tax questions before the Committee.

I am aware that this Committee is under instructions to report out an excess profits tax bill so that the House can have the opportunity to vote on it. Your staff was kind enough to invite me down here last month to participate in informal discussions of the technique of excess profits taxation. I was impressed by the conscientious and competent way in which your staff approached the complicated problems involved.

If I may say so, I do not believe that the obligations of this Committee will end with the reporting out of an excess profits tax of the World War II type, even though it be as free of technical defects as possible. The House properly looks to this Committee for advice on tax matters. The members of the House will not only want to know that you have drafted the best excess profits tax you can. They will also want to know whether you recommend that they should enact the excess profits tax you present to them. And they will want to know what the alternatives would be if they should decide to reject an excess profits tax of the World War II type.

The Congress should not be placed in a position where it must choose between an excess profits tax on the World War II type and no taxes. The real choice before us is not between such an excess profits tax and no taxes, or between such an excess profits tax and no taxes now, or between such an excess profits tax and no additional taxes on corporations. The choice is between such an excess profits tax and a sound, adequate tax program to pay for defense.

The CED believes strongly that an excess profits tax on the World War II type should not be imposed. There are many arguments against such an excess profits tax. It is unfair, it is burdensome, it is difficult to administer. So many exceptions become necessary that neither the taxpayers nor the Treasury know where they stand until years of negotiation and litigation have passed. These are important arguments, but by themselves they are not decisive. In this defense emergency, which may last for a decade or more, we are going to have to do many things that are burdensome and difficult. We shall even have to do some things that are unfair. But we shall do them because the strength of America demands it.

The decisive reason for not imposing an excess profits tax of this kind now is that it would weaken America in the long-run crisis for which we must be prepared. It would be folly to finance a program to strengthen America by a tax that would weaken America.

The essence of the excess profits tax such as we had in World War II and such as is now recommended by the Treasury is that earnings above some credit are defined as "excess" and taxed at a rate significantly higher than the rate applied to other profits. The credit is determined by earnings in some historical base period or by the rate of return on invested capital.

It would be hard to think of a tax better calculated to penalize the enterprising firm relative to the sluggish, the efficient relative to the inefficient, the new and growing firm relative to the old established one. The big, established firms pays the standard rate so long as it does not exceed its base period earnings. But the firm that has a better product or more efficient method must pay the Treasury 75% of its additional earnings if it starts to grow up to challenge the established firm. The corporation that uses its capital wisely and earns a high return pays much more tax than one that has a higher invested capital base. The yardstick by which management makes decisions depreciates. Efficiency is worth only 25 cents on the dollar; waste costs only 25 cents on the dollar.

In discussing the rate of profits taxation before this Committee, Secretary Snyder said: "Excessively high rates tend to increase inflationary pressures because they induce waste and inefficiency." Again he said: "If under present conditions and in the absence of wartime production motivation corporations were alloyed to retain only a small part of any additional income they earn, they may not be left with sufficient incentive to maximize production." We believe that a 75% tax rate is an excessively high rate. We believe that 25% is a very small part of additional earnings to allow corporations to retain. We believe that such a tax rate should not be imposed, for the reasons mentioned by Secretary Snyder and for other reasons.

I do not know what advocates of such a tax think the American economy would look like after five or ten years of such a tax. I know what I think it would look like. Corporate enterprise would become bureaucratic—with little drive for improvement, little fear of waste, little pressure from competition and little willingness to take risks. Profits would be a reward for having a big tax credit, not a dynamic force for growth and efficiency. Now, bureaucracy has its place. But it is not noted for its enterprise, aggressiveness or efficiency. It is not the way to run the American industrial machine.

Not Opposed to High Taxation

I want to make it perfectly clear that CED's opposition to an excess profits tax of the ordinary type is not opposition to large additional taxes now. We have advanced a program for immediate action to raise $6 billion of taxes, half from corporations and half from individuals directly. We recognize that it will be necessary in the emergency to strain the limits of sound taxation, and to impose more taxes on corporations even though the corporation tax is a basically bad tax. But we believe that this particular form of taxation — the kind of excess profits tax that has been suggested by the Treasury—needlessly and recklessly exceeds the limits consistent with a strong America.

The term "excess profits" by itself does not define the proper base for an excess profits tax. No one knows what excess profits are, or how to measure them. As Secretary Snyyder told this Committee. "Except in the case of individual defense contracts, it is impossible to determine the specific factors contributing to the changes in profits of a particular corporation or even of an industry." The profits resulting from the defense program are mixed with the profits resulting from all other factors. They are mixed beyond all possibility of isolation, except in the direct military contracts. In the case of direct military contracts profits should be limited by strict pricing and by renegotiation.

Surely the standards of base period earnings and return on invested capital are arbitrary standards by which to measure the excessiveness of profits. For example, it is clear that the Treasury recommends a credit equal to 75% of base period earnings because that is the way to raise $4 billion, not because 75% is a better measure of "normal" than 100% or 125%.

We believe that additional taxes should be enacted at the special session to take effect Jan. 1. In order to do this a simple tax plan is needed. The tax proposal should not require the determination of a wholly new tax base, as the ordinary kind of excess profits tax does.

How much additional tax should be imposed on corporate profits depends upon the total amount of revenue needed and upon the added revenue that should be obtained from other sources. We have found it exceedingly difficult to get reliable estimates of expenditures in 1951. However, I have seen no evidence to suggest that as much as $4 billion of additional taxes from 1951 corporate profits will be needed. On the basis of certain estimates as to 1951 expenditures that are explained in our policy statement (pp. 20-24) we concluded that $3 billion of additional taxes on 1951 profits might be needed. Further investigation has convinced me that our expenditure estimates may be too high and that the addition to corporate taxes needed for 1951 may be less

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1 The Committee for Economic Development is an organization of businessmen formed to study and report on the problems of achieving and maintaining a high level of employment and production within a free economy. Its Research and Policy Committee issues from time to time statements of national policy containing recommendations for action which, in the Committee's judgment, will contribute to maintaining productive employment and a rising standard of living.

*Statement of Mr. Thomson before the House Ways and Means Committee, Nov. 21, 1950.

The Controversy Over Federal Reserve Policy

By MURRAY SHIELDS*
Vice-President, Bank of the Manhattan Co.

Bank economist, terming inflation problem pernicious, insidious and complex, calls for approval of Reserve Board's "statesmanlike and courageous" effort to regain independence of action. Asserts need for flexible, unpegged short-term interest rates to control inflation at source.

Inflation is clearly the most pernicious, insidious and difficult economic problem with which this nation is confronted, for its origins lie deep in the history of the past 15 years. Our defenses against it are far from perfect and the risk is great that our economic development in the next decade will be adversely affected by the dislocations which result inevitably from it. The inflationary process is a complex rather than a simple one, for it involves union-induced rounds of cost increases, fiscal unbalances and monetary and banking policy. But of the three, monetary and banking policy is by far the most important for, without a halt in monetary expansion, there is little room for hope that the other two forms of inflation can be held in check. It is in the light of such considerations that the historically significant effort of the Federal Reserve Board to regain the independence of action which it had to forego during World War II, must be appraised.

Murray Shields

It is not open to question that every well developed industrial nation must have a strong central banking organization if it is to be able to prevent economic recessions from developing into devastating inflations and if it is to prevent periods of prosperity from deteriorating into wild inflationary booms. The technique is complicated, but it is obvious that our Federal Reserve Banks must tighten up on the commercial bank reserve position when inflation is threatened. Any central bank without that power isn't a central bank at all, and any central bank which must direct its operations solely for the purpose of maintaining artificially low interest rates on government obligations has lost its power to do the only thing that justifies its existence. Without that power it is, in reality, only an engine for making inflations and perhaps deflations worse than they would be otherwise.

A central banking organization simply must be permitted to manage its portfolio of government obligations and its portfolio of member bank rediscounts to control the over-all reserve position of the commercial banking system. It cannot do this when its policies are dominated by the need for buying and selling government securities solely for the purpose of holding the rates on such obligations unchanged. That was the position our Federal Reserve System was in until it made, what has been popularly referred to as, its "Declaration of Independence."

Flexible Short-term Rates Needed

The result of the recent change in Federal Reserve policy was that interest rates rose moderately. But, that is not the important consideration, for what we cannot afford to do without is flexible, unpegged, short-term interest rates so that the Federal Reserve authorities will be free to check expansion of total bank deposit money in booms and to foster such expansion in depressions. Our only hope of halting inflation is to stop it at the source. Without such a change as the Federal Reserve recently initiated in its policies, the possibility of holding inflationary forces in check would be remote indeed.

One must grant, of course, that in periods when the government is faced with the necessity of raising tens of billions of funds for war purposes any central bank has no option but to subordinate its operations to the over-riding needs of the Treasury. But, the period since the outbreak of war in Korea has been one in which the Treasury had no need for new funds and when stockpiling purchases by the government, by business and by consumers in markets which had not yet been subject to any cutbacks due to credit or other curbs on consumption, could only have a pronounced inflationary effect. In such circumstances, it would have been ridiculous not to apply the credit brakes and the Federal Reserve is to be commended for having taken so thoroughly statesmanlike and courageous a position on the matter.

*From an address by Mr. Shields before The Rhode Island Bankers Association, Nov. 16, 1950.

Nadler Lists Anti-Inflation Measures

Lays down 7 recommendations to curb the forces of inflation.

In an address before the Grocery Manufacturers Association in New York City, on Nov. 13, Dr. Marcus Nadler, Professor of Finance at New York University, offered the following recommendations as curbs to the forces of inflation:

Marcus Nadler

(1) As far as possible the defense program should be financed through taxation designed to siphon off the excess earnings generated by the rearmament program. This should apply to the entire population.

(2) All civilian expenditures of the Federal Government, as well as of state and local governments, should be curtailed as far as possible and all public works should be drastically reduced.

(3) Great care should be taken that the military expenditures are handled most efficiently. Economic conditions in the United States today are far different than those that prevailed in 1942, and the inflationary potentials are much greater.

(4) All economic groups must contribute their share in bearing the cost of rearmament. Organized labor gains little if it insists on higher wages, if this in turn merely leads to higher prices and reduces the purchasing power of a large portion of the population. Such a development could lead to large-scale unemployment after the defense program is completed. Farmers should not expect the taxpayers to support a farm program which is obviously unsound. Under the circumstances, the adoption of legislation along the lines of the Hope-Aiken Bill is indicated. Finally, corporations will gain little from high profits if this leads to drastic excess profits taxes and regimentation of the economy.

(5) The general public must be made to realize the serious emergency that confronts the nation and encouraged to reduce unnecessary expenditures as much as possible and to save more.

(6) The debt management policy of the Treasury must be based on the realization that artificially low money rates can do more harm than good, and that debt management must be geared to prevailing money market conditions.

(7) Credit policies of the Reserve authorities should be directed to the stimulation of productive loans and the curbing of loans considered as unessential in the present emergency or unproductive in character.

In appraising the future outlook, Dr. Nadler stated it must be borne in mind that the productive capacity of the country is very great and is steadily mounting. Increased production and efficiency of labor and equipment are the most powerful forces working against the inflationary trends. The supply of food is large and the rest of the world is less dependent on the United States for food and manufactured articles than formerly. The economic rehabilitation of Western Europe has progressed more rapidly than expected. Hence, not only is it less dependent on the United States but it can furnish us with vital commodities which only two years ago were in short supply.

Dr. Nadler's conclusion was that the people of the country will realize the seriousness of the situation confronting us and that they will act accordingly. If they do so, both inflation and drastic regimentation can be avoided.

Economists to Present Measures to Preserve Dollar's Buying Power

An anti-inflation program to be applied in peace or war will be presented by Leland Rex Robinson and Walter E. Spahr, New York University professors and noted economists, and Floyd Cramer, President of New York State Savings and Loan Association, at a luncheon conference sponsored by the Economists' National Committee on Monetary Policy at the Hotel McAlpin, Dec. 4.

Doctor Robinson will analyze corporate earning power and its relationship to Federal monetary policy.

Dr. Spahr will discuss the desirability of redeemable currency, proper use of credit controls, importance of governmental economy, and funding of the Federal debt into consols.

Mr. Cramer will speak on the need for sound money to make thrift attractive.

The meeting will be open to all who are interested in sound monetary policies.

Bern Securities

Bern Securities Co., Inc., is engaging in the investment business from offices at 280 Madison Avenue, New York City.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

One of the major investment houses specializing in insurance stocks, Geyer & Co., 63 Wall Street, New York, N. Y., has recently published a current appraisal of insurance equities.

As is usually the case with the reports of this firm the presentation is both interesting and informative. Current operations are placed in perspective and comments are made on such subjects as dividends, market prices, taxes and book values.

The appraisal expresses the point of view that insurance stocks are generally priced conservatively in relation to basic values and many offer the "almost certain probability of dividend increases."

It is estimated that as a group fire and casualty insurance companies are paying dividends which are equal to only about 55% of the investment income to be realized this year. From a historical standpoint these companies have distributed between 75%-85% of investment income and present payments are considered "niggardly." A more equitable distribution of earnings is both desirable and likely.

Discussing the 1949 and 1950 earnings of fire insurance companies, the report points out that although the favorable underwriting results of these two years are recognized as "abnormal," the shares are generally valued conservatively on the basis of expected normal or average earnings. Even after providing for a 45% corporate tax rate the stocks of companies in the fire and casualty field are selling for only about eleven times what is considered the normal earning power of these institutions. Many of course, are selling considerably lower.

In addition there are a number of instances where insurance stocks are selling on the basis of earnings derived from investment income alone. Concerning the possibility of an excess profits tax, should the law correspond to that in existance during the last war, "most fire and casualty companies should have an exemption credit high enough to suggest the industry as a whole should be able to earn at least 10% on present stock prices before encountering the EPT levy."

With the exception of one or two underwriting lines, Geyer & Co. views the current outlook for insurance company operations as favorable. The recent underwriting experience on automobile injury and property damage risks has not been entirely satisfactory. It is possible that rates, which were reduced last year on these risks, may be adjusted to prevent any "prolonged period of unprofitable underwriting experience."

The major line of most companies, fire insurance proper, continues to show excellent results. In spite of an increase in fire losses so far this year of about 3½% over the total of last year, Geyer & Co. suggests that earned premiums may have increased to an even greater extent with the result that the industry may be showing better results than in the very favorable period of 1949.

It is also pointed out that the recent decline in lumber prices is a favorable factor in the current outlook in that it may indicate there will be a period when costs of settling fire insurance claims may decline.

Another favorable factor in the current position of insurance stocks is that they are selling in the market at an estimated discount of 30% from present asset values.

As a final point, Geyer & Co. points out that even though the current position of insurance stocks is favorable, this group has advanced by approximately 40% in market price since 1947. This change in prices has also created a change in the relative values of the different issues and requires "discrimination" in the selection of purchases at this time.

Along with its current appraisal of insurance stocks Geyer & Co. comments on the position of a number of specific insurance shares.

The four companies which comprise the "Corroon & Reynolds Group"—American Equitable Assurance Company, Globe & Republic Insurance Company, New York Fire Insurance Company and Merchants & Manufacturers Insurance Company—are discussed briefly. It is pointed out that there has been a fundamental improvement in the quality of these shares in recent years.

Fireman's Insurance Company of Newark is also discussed. Earnings for the current year are estimated at $3.75 a share for this company and "average" earnings over a period of years at not less than $3.00. The appraisal of these earnings by the market is considered very conservative.

National Union Fire Insurance Company, the last of the stocks discussed, is viewed as an under-priced equity in a group which seems undervalued.

Anti-Inflation Battle Report

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

After reviewing background of inflationary effect of the Defense Program, Federal Reserve Governor outlines means by which this central bank organization influences credit and price trends. Describes Open Market Operations, the Discount Rate and Reserve Requirements provisions, and what has been done in these categories as well as the monetary-fiscal measures already applied. Holds it is too early to judge effects of anti-inflationary measures already taken, but if they are ineffective, further means must be taken promptly.

I can only report on certain phases of this battle. As I see it, any report on our battle at home against inflation should begin with a broad consideration of its background. We know that international tensions have mounted steadily over the past three years. The Korean war is only the most recent of a series of crises. Korea, however, established the intention of the United States to support United Nations policy with force. It also brought to light inadequacies in our defense establishment in relation to our diplomatic and moral commitments to the free world. As a result, we are now greatly expanding our defensive power.

M. S. Szymczak

The international situation continues tense. Potential trouble spots are scattered throughout the world. In these circumstances, we must maintain a vigorous and integrated foreign policy consistent with the aims of the United Nations. This means for an indefinite time a much larger defense establishment than we have ever known in peacetime to meet our international commitments and to secure our own defense.

We do not know, at this time, how much an adequate defense program may ultimately cost. Nevertheless, actions already taken clearly indicate that present and forthcoming programs will exert a heavy strain on our economy and that we must gear our economic policy to the new situation. The President has stated that the size of the armed forces will double from the pre-Korean level of 1.5 million to 3 million men. Congress has appropriated an additional $17 billion for defense, military aid abroad, and an expanded stockpiling program. In men and dollars, this more than doubles the pre-Korean defense program, and indications are that further supplements may be needed.

The new situation has serious implications for economic stability. Great pressures are placed on our capacity to produce and our price structure is put under severe strain.

Economic Impact of the Defense Program

Even before Korea business and consumer demands were very high. Output of goods and services was at record levels both in terms of physical volume and expenditures. Unemployment was relatively low. In many key industries, output was at or close to capacity and further output depended on new additions to plant and equipment.

Now a greatly expanded defense program has been superimposed upon these large civilian demands. As the defense program accelerates total output will also rise with the increase in capacity, productivity, the length of the work week, and employment. Total production, in fact, may expand by as much as 8 or 9% over the next year, but it is not likely to rise as rapidly as the takings of the defense program. While total supplies of commodities and services available to civilians may show little change, or even increase somewhat, over the coming 12 months, in some areas, especially metal-using industries and residential construction, supplies may be sharply curtailed.

The attainment of such an increase in over-all production would exert severe strains upon our available supply of labor as well as on industrial capacity and supplies of scarce materials. It would seem conservative to estimate manpower requirements for defense production and the armed forces at 8 million persons by the end of 1951, or about one-eighth of the labor force of 65 million. This allows for 5 million workers in defense activities, about 3 million more than at present, and an increase in the armed services to a total of 3 million men. Since unemployment is now at low levels, the additional workers will have to come mainly from a greater than normal expansion in the labor force and transfers in employment from civilian to defense activities. If in the next year the labor force increases by 1.5 million instead of the normal 600,000, it would still be necessary to shift some 2 or 3 million workers away from production of civilian goods. In addition, it is likely that the work week will also have to be increased further.

As long as we are obliged to maintain a garrison economy, the volume of goods and services available to civilians will be limited by the size of defense programs relative to our ability to increase production. Much of our national strength in the past has arisen out of our capacity to expand our production and at progressively lower cost per unit in terms of manhours employed. This has been the result of rapid technological progress, intensive use of capital equipment, unique managerial genius, and a trained and intelligent labor force. The survival of our democratic way of life depends in no small measure on our ability to maintain and possibly improve our past record in this area. This means that technological research must continue to have a high priority. Modern war is a war of technology as well as of men.

Increased production, however, will not be enough by itself to avert inflationary dangers as defense programs expand. The nature of the problem may be indicated by illustrative figures. Let's say that total gross national product in terms of third quarter 1950 prices might be increased by $25 billion, or almost 9% from the third quarter of 1950 to the third quarter of 1951. But if, for example, defense takings account for $20 billion of the total increase, then only $5 billion would be left for additional private civilian and regular government expenditures. Meanwhile, private incomes before taxes would be increased by $25 billion. These rising incomes, unless drained off by a pay-as-we-go fiscal policy, will result in rising demands which cannot be satisfied and which will exert strong pressure on prices. Unless restrained, price advances under such circumstances will breed further price increases in an inflationary spiral.

The inflationary potential is further aggravated by the fact that both businessmen and consumers can increase their expenditures by reducing holdings of liquid assets and by making use of credit. These demands are in addition to those arising out of incomes earned through current production. Furthermore, as prices rise, incentives become stronger for shifting out of cash or its equivalent into real assets, that is, people buy goods and invest, and demand for credit becomes more urgent.

Rising prices raise material costs and stimulate wage increases. With high employment, tightening pressures upon manpower supplies, rising living costs, and expanding profits, workers are in a position to ask for higher wages. At the same time, employers must bid actively for labor by offering extra inducements to workers. Advancing profits tend to lower resistance to wage increases. With demand strong, business is able to raise selling prices to cover additional expenses. Thus, higher prices lead to higher wages, incomes, costs, and expenditures, and to higher prices again.

Developments in the third quarter of 1950 illustrated the nature of the inflation process. Defense expenditures rose only very moderately. Nevertheless, prices, incomes, and expenditures advanced very sharply. Incentives for accumulating inventory were very strong. Business revised sharply upward its plans for investment in plant and equipment. Consumers engaged in a buying spree of commodities which might eventually be in short supply. Consumer holdings of liquid assets were reduced and bank credit, reflecting especially loans to business and to individual buyers of consumer durable goods and houses, expanded at record rates. These developments were based primarily on changed expectations. A higher price, cost, wage, income, and credit structure was built into the economy even before the real pressures of the defense program on our available resources were felt.

The Economic Prospect

What is the economic situation in prospect? It is not one of all-out warfare expected to last for a limited period of time. Rather, what we may face is a condition of government expenditures which are expected to be high but below wartime levels for a number of years in the future.

In such a situation, direct controls like price and wage controls and rationing are both less necessary and less workable than in a period of all-out warfare. On the other hand, sopping up the excess purchasing power through taxes and monetary measures is much more feasible than under conditions of all-out warfare. Certainly as long as consumer durable goods are available in anything like the volume we can still expect, the task of allocating them among us would be exceedingly difficult. Furthermore, the longer direct controls are continued, the more difficult their administration becomes and the more likely it is that controlled prices will develop serious economic distortions as conditions of production change in the different industries.

Steps have to be taken, of course, to conserve and allocate certain strategic materials which are in scarce supply. But a harness of direct controls, including controls at the retail level, should be accepted only if needed as a last resort. In any case, even if direct controls should be adopted, it will be necessary constantly to mop up excessive funds so that the controls themselves will not become a sham while inflationary processes find their real expression in black markets and concealed transactions.

To say that we face an extended period of more or less chronic inflationary pressures does not mean that we face a period of progressive deterioration in the purchasing power of the dollar. It does mean that fighting inflationary dangers will be our continuing problem. It doesn't mean that we need to lose that fight. But fighting inflation cannot be painless. If we are to do it successfully, with or without a comprehensive harness of direct controls, we must accept the financial measures which are necessary to do the job.

It should be recognized that the prospect of an extended battle of fighting inflationary trends does not imply that business trends will follow a steady upward course. A garrison economy will have many difficult problems of balance in production, prices, and employment. Unbalanced conditions may develop which can only be corrected by temporary setback of activity. A continuing danger will be that of speculative excesses, which from time to time could go much too far. We could then even witness the spectacle of deflationary reversal at a time when underlying forces were on the whole inflationary. History of inflationary periods is filled with examples of that kind of economic development.

The Task of Monetary Policy in Fighting Inflation

A dynamic economy requires enough money to permit a level of production which is compatible with a high level of employment. If, however, the amount of money in the economy is far in excess of available supplies of civilian goods, the saver may lose faith in the future purchasing power of his dollar. It is the task of monetary policy to see that the money supply is adequate for a fully functioning economy but not so large as to cause inflation with all its misdirection of human effort and other productive resources and its inequitable redistribution of real income and real wealth.

In the long run, an expanding money supply is required by an expanding economy with an increasing working population, increasing capital investment, and increasing productivity per worker. Our banking system has done a splendid job of supplying the financial resources to keep pace with our increased production.

But to keep the economy on an even keel from month to month and year to year requires constant vigilance. There are always incipient movements in the economy which, if allowed to develop, might result in runaway inflation or deflation. Whatever the initial cause of such developments, actions by the Federal Reserve can serve as an important offset. If a general price swing is caught early, it may take little to restore the economy to an even keel. It is much easier to check an inflationary or deflationary movement before it has become cumulative and before one-sided anticipations of business and consumers have begun to reinforce it.

It is just these incipient movements which monetary policy is best adapted to attack. Monetary policy is flexible. It can be applied rapidly, it can be applied gradually in experimental doses, and it can be easily reversed.

Types of Monetary Measures

Monetary measures include actions that influence the availability and price of funds to lending institutions and actions that directly define terms of lending—such as down-payment and maturity requirements—in certain fields of credit. The former measures affect primarily supply conditions for credit, the latter mainly demand conditions.

The availability and price of funds to lending institutions are influenced by open market operations, changes in the discount rate, and changes in reserve requirements. These actions all have their major effect on bank reserve positions, although they may also immediately affect the lending ability of other groups of lenders.

Even at the risk of appearing either too elementary or on the other hand too technical, it seems appropriate to me, at this time, to define a little more clearly what is meant by bank reserves and reserve requirements. The term reserves may refer to any cash assets held by banks. For member banks of the Federal Reserve System, however, it refers generally to the deposits of commercial banks with the Federal Reserve Banks. At the present time, country, reserve city, and central reserve city banks are required to hold reserves equal to 12, 18, and 22%, respectively, of their demand deposits and reserves of 5% of their time deposits. Thus member banks can now have demand deposit liabilities equal to about six times their reserves. If there is a change in either the amount of reserves or the percentage reserve requirements, then the amount of deposits the reserves will support is changed. This will change correspondingly the amount of credit that banks may extend, since, as you know, when banks increase their credits they increase their deposits and when they reduce their credits they reduce deposits.

Open Market Operations—Now let us consider the effect of open market operations, changes in discount rate, and changes in reserve requirements on the reserve position of banks. The Federal Reserve may at any time either purchase or sell United States Government securities. If the Federal Reserve shows a willingness to purchase government securities at favorable prices and low yields, it encourages holders to sell them in order to secure funds to lend on more favorable terms to private borrowers. These funds thus find their way into the expenditure stream.

The sellers of securities to the Federal Reserve may or may not be commercial banks. In any case, Federal Reserve purchases will supply banks with reserves which, as I have indicated, may be the basis for multiple credit and deposit expansion. Any seller will be paid with a check on a Federal Reserve Bank. If banks are themselves the sellers of securities, then they obtain reserves directly as a result of the sales. On the other hand, if the sellers are nonbank investors—say, insurance companies—they will deposit the proceeds in banks, since the Federal Reserve Banks do not hold deposits for the general public. Thus in this case, too, banks will obtain increased reserve balances at the Federal Reserve. In either case, banks will find themselves with reserves in excess of legal requirements and will be able to increase their loans and deposits. As the deposits thus created are spent, other banks will find themselves with excess reserves. For the banking system as a whole, the increased excess reserves may form the basis for an increase of five or more times credit and deposit expansion.

It is easy to see, therefore, that if the Federal Reserve can avoid buying securities in the market it puts a powerful brake on the

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*An address by Gov. Szymczak at the 182nd Annual Dinner of the Chamber of Commerce of the State of New York, New York City, Nov. 16, 1950.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

JENISON, Mich. — Jacob H. Shoemaker is with Waddell & Reed, Inc. of Kansas City, Mo.

Mutual Funds

By ROBERT R. RICH

Keystone Fund Releases Program for Fiduciaries

A new approach to the use of common stocks by fiduciaries and institutional investors was disclosed by The Keystone Company of Boston today.

Described as "A Conservative Program for Institutional Investors," the Keystone method is designed to increase income and opportunities for capital gain through more efficient use of common stocks. It was developed after extensive research and the testing of combinations of the different classes of high-grade securities over long-term market conditions.

The plan represents a departure from the holding of fixed amounts of equities in fiduciary accounts. It calls for the use of only quality stocks and in different proportions depending on market levels.

"With some shrinkage of capital due to deterioration of certain bonds acquired in the past as meeting trustee standards, and with income available from high-grade bonds steadily declining to historically low levels, it is becoming generally agreed that even the most conservative accounts should hold some quality common stocks. Recent legislation in New York and other states has been passed to this end," the investment company said.

"Much debated, however, is the proportion to be used. Research has led to the conclusion that it should be no fixed percentage but should vary with the level of stock prices so that relatively substantial amounts of desirable equities may be acquired at those low market levels when they are a more attractive purchase and profits taken through their sale during subsequent high levels."

Wellington Fund Reduces Common Stock Holdings

Wellington Fund today reported a slight reduction in common stock holdings in line with its policy of reducing individual investments after substantial price advances. The Fund in an interim report added that the reduction had been made before the sharp decline in the stock market prior to election.

The report noted that the Fund is continuing to follow a conservative policy in view of growing international tension and uncertainties of national defense and tax policies.

The report listed total net assets of $147,651,949 on Nov. 15, last, of which common stock holdings amounted to 60.19%. This compares with total net assets of $141,222,903 on Sept. 30, last, of which 61% was invested in common stocks. The balance of the investments of the Fund on Nov. 15, 1950, were diversified as follows: Investment bonds and preferreds, 15.98%; convertible seniors, 1.47%; appreciation bonds and preferred, 0.90%; and U. S. governments and cash, 21.46%.

Fund to Permit Dividend Reinvestment at Cost

Commencing with the 1950 year-end dividend, shareholders of The Investment Company of America will be permitted to reinvest all future cash dividends in additional full or fractional shares of the company at the per share net asset value.

Certificates will not be issued for fractional shares, but the fractional shares purchased under a reinvestment order will have proportionate dividend and other rights of common shares—except that they will have voting rights and rights to require the company to repurchase such shares only when combined with other fractional shares to aggregate full shares.

Safety Factors Reported By Gas Fund Officer

James H. Orr, President of Gas Industries Fund, reports to the shareholders of the Fund that an excess profits tax should not cause undue concern. Mr. Orr remarked that gas utilities are already regulated through rate fixing to earn a "normal" rate of profit and to permit a reasonable return on investment.

"Since a large supply of low-cost energy is an absolute necessity for national preparedness," he remarked, "punitive taxation should not be allowed to cripple the vital contributions to preparedness which the industry can make." The industry has a low labor factor and is therefore insulated to a comparatively favorable degree against wage inflation induced by government spending.

Affiliated Reports

A 10-year record of capital results of an investment in Affiliated Fund Inc. from Oct. 31, 1940 to Oct. 31, 1950, on a per share basis reveals an increase in net asset value from $2.76 to $4.30. In addition the holder would have received $2.37 in capital distributions, making a total of $6.67. Dividends from net investment income have varied from three cents per share in 1941 to 28 cents in 1949 and 24 cents in 1950.

Inventory Changes Vital Factor in Trade Cycle

Dr. Moses Abramovitz in research study concludes successive accumulation and liquidation are strong elements of instability. Maintains during short cycles, inventory fluctuations have exerted stronger influence than other factors to which greater attention has been paid.

New measurements released today by the National Bureau of Economic Research show that changes in the rate of inventory accumulation and liquidation are a far more important cause of business cycles than has hitherto been suspected. This is perhaps the most striking conclusion of a new study by Dr. Moses Abramovitz, a member of the research staff of the National Bureau and Professor of Economics at Stanford University.

Moses Abramovitz

The study is published under the title *Inventories and Business Cycles, With Special Reference to Manufacturers' Inventories*. It is the first comprehensive statistical investigation of the role played by inventory fluctuations in accounting for changes in business, and is one of a series of studies probing the causes of business cycles being carried on at the National Bureau.

Inventory Fluctuations Are Potent Cause of Business Instability

Dr. Abramovitz' measurements show that, of the cyclical changes in total output between the two World Wars, approximately 32%, on the average, took the form of changes in the volume of goods added to, or removed from, stocks. The figures indicate that during short cycles inventory fluctuations have been a more potent cause of business instability than have other factors to which greater attention has usually been paid. For example, the average share of construction in accounting for cyclical changes in output during the interwar period was only 3% and the share of expenditures on producers' durable equipment only 19%.

Size of Stocks Is Found to Be Very Important

The reasons that inventory fluctuations are so important, Professor Abramovitz' book shows, lie partly in the great size of the inventories carried by business and partly in the fact that stocks are kept fairly well adjusted to changes in business activity. During the interwar period, the average size of inventories was about 35% of the average level of output. Since business tries to keep stocks in rough proportion to sales and output, this means that if sales increase $10 billion, business will produce $3.5 billion of goods to add to stocks, thus causing a much larger change in output than would have been attributable to the sales change alone. Similarly, a 10% increase in stocks involves the production of such a large amount of goods that total output will tend to rise about 3.5%.

Changes in Total Inventories Lag Behind Sales and Output by Six to Twelve Months

These general conclusions follow a very intensive and detailed exploration of inventory movements, particularly in the manufacturing area. Dr. Abramovitz finds that the movements of total inventories tend to lag behind sales and output by six to 12 months. To find an explanation of this long lag, he divides total inventories into a number of categories. Of these the principal ones are goods in process, purchased materials and finished goods.

Goods in process, he finds, rise and fall together with output. Raw materials tend to lag behind sales and output by three to four months on the average. This lag, he says, is attributable to the facts that cyclical changes in requirements cannot be accurately forecast and that many industries find it difficult for a while to reduce orders and receipts of purchased materials as fast as their consumption of materials falls.

The principal class of finished goods stocks lag behind output by an even greater interval than do purchased materials. In short cycles they even tend to move in a direction opposite to business activity during entire expansions or contractions. The reasons for these lags, he concludes, lie partly in inability to forecast changes in demand. In large part, however, the long lag or inverted behavior of stocks of finished goods must be due to the fact that manufacturers try to keep their output somewhat more stable than their sales and are forced to accumulate or liquidate stocks in the process.

Dr. Abramovitz' findings are based not only on an examination of aggregate inventory estimates, but also on detailed studies of the behavior of many individual commodities. He made special investigations of ten kinds of purchased materials and 27 kinds of finished goods in order to find explanations of the behavior of these categories of stocks.

Inventory Lag a Stabilizing Factor

Although inventory movements greatly aggravate the instability of business, Dr. Abramovitz points out that the laggard behavior of stocks is a stabilizing factor. If stocks rose or fell immediately whenever sales changed, the fluctuations in business would be even more serious than they are. As it is, the first effect on output of a rise or decline in sales is cushioned by an opposite change in stocks.

Dr. Abramovitz' study is the fourth in the series of studies in business cycles in which the National Bureau is reporting the results of its systematic exploration of the causes of prosperity and depression. Dr. Abramovitz has been a member of the staff of the research agency since 1938. He formerly taught at Harvard and Columbia Universities.

Gaines to Admit

Gaines & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Raymond P. Reis to partnership on Nov. 30. Mr. Reis will acquire the Exchange membership of Alexander J. Burns.

Gammack to Admit

Norman Fischer will become a partner in Gammack & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, on Dec. 6.

Planning to Meet Manpower Needs

By ROBERT C. GOODWIN*
Director, Office of Defense Manpower

Newly appointed Defense official foresees manpower shortages in some occupations, but states it is probable that nation can raise level of military production required by present appropriations and at same time increase armed forces to three million without serious disruption of civilian economy. Envisions expanded labor force of five million and calls for nation-wide voluntary cooperation of industry and government to meet manpower needs and maintenance of free labor market.

We, as a nation, have set ourselves a job of limited mobilization. It is a job for defense of us all; for the discouragement of aggression wherever it may appear; for the peace and security of ourselves and liberty-loving peoples everywhere. It is not, comparatively, a tough job—yet. We have no sure way of knowing how tough it may become. But recent events have made it clear that we cannot afford to limit our outlook to the partial mobilization with which we are now engaged. We have to take into account a menacing world situation which may require an all-out effort at any time.

Robert C. Goodwin

The sudden eruption of Communist aggression in Korea was a shocking but enlightening reflection of the greater menace. Prompt and resourceful action by the United Nations has dealt with it. But we cannot permit ourselves the luxury of relaxation because of successes in Korea. Military action there is but a sample of what we may have to face elsewhere. It is only too clear that our defense program must embrace any eventuality. As President Truman himself has said (I quote):

"In both Europe and Asia . . . vast armies pose a constant threat to world peace. So long as they persist in maintaining these forces and in using them to intimidate other countries, the free men of the world have but one choice if they are to remain free. They must match strength with strength."

So there we have it. It is up to us, all of us, as a nation, to be ready for any eventuality. But it is not going to be easy. We don't know for how long we shall have to continue mobilization efforts. We do know that there is a good chance that it will be for a long time. As we move toward the goal of this limited mobilization, therefore, it is clear that we should move with an eye to the possible need of expansion into full mobilization.

We should make it a basic principle of our defense effort that the long view is the safe view. We must not look to mere numbers in appraising our manpower-potential but must give particular emphasis to our major manpower asset—the quality of our work force.

It is important that we build upon our existing production skills and technical know-how, so that we bring together the contributions of our educational and training facilities and our industrial plants to assure that we have a continuing manpower development program. The scope of such a program should include not only the improvement of production skills but the development of supervisory and management competence and the kind of industrial leadership that will make the most of our available manpower. Such a program would include an analysis of the training resources available within and outside of the individual plant. This analysis should not be confined to what is generally regarded as training. It should include studies to determine whether presently employed workers are capable of performing more complex jobs within the plant than those on which they are engaged. All channels for transfers and promotion should be explored and arrangements made to follow through when such job opportunities occur in the plant. It is of utmost importance that employers take steps to improve the quality of their work force just as they strive to improve the quality of their product. Such a policy will not only reduce costs of turnover and new hiring but will bring about a more effective utilization of our work force.

In matching strength with strength, our advantage lies in our superiority in science and technology — the fruits of our traditions and institutions; our free way of life. We must maintain that superiority. We can do it. But it will mean some personal sacrifices and shifts in our economy so that some types of production are expanded while others are curtailed. We must, however, hold our advantages and increase them.

In a gathering such as this it may seem like stressing the obvious to emphasize the fact that manpower, its supply, distribution and utilization, is a highly important factor in a limited defense program. In total mobilization, manpower may well be the ultimate limiting factor. The first action, then, of the Department of Labor and the Office of Defense Manpower, has been a realistic evaluation of our manpower resources and a scientific planning for their fullest possible utilization.

Manpower Facts

Let me review the manpower facts which must be taken into account in shaping our program and operating activities.

Expansion of our defense program began at a time when our economy was operating at the highest levels in its history. Never before in peacetime had we been busier and more prosperous. Gross national production was at an annual rate of $267 billion, above that of any full year in the past. Total industrial production was at a new peacetime high. We were producing more houses, more steel, more automobiles than ever before. Our labor force had never been so large, and we had never had so many civilians employed as in July. We were then, and are still, in the midst of a "boom," and it is largely a civilian boom. Translation of our defense program into production and employment is now getting under way. Employment, excepting for seasonal movements, is on the rise. Within the short span of a few months we have seen unemployment drop off from 4.7 million in February of this year to 2.3 million last month—50%. At the same time, nonagricultural employment climbed to 54.2 million in August, the largest volume in our history. It fell off seasonably in September. Between May and July of this year, labor market areas with a tight or balanced labor supply increased from 12 to 19. And the number is mounting. There are now only 2 major areas with heavy labor surpluses. Unemployment insurance claims for completed weeks declined from a weekly average of 1,700,000 in May to 872,000 in September, nearly half.

The labor market reports, which we are now receiving from the public employment offices throughout the country, indicate that the impact of defense ordering and expanded defense production is now beginning to be felt. Scarce labor supply and important occupational shortages exist in about a third of our major production centers. Thus far this labor market development is largely concentrated in the North Central States around the Great Lakes, in the Southwest, and on the West Coast. But it is spreading rapidly to other sections of the country. Even New England, which not many months ago was confronted with severe unemployment and a large labor surplus is now experiencing some labor shortages. Some of the industrial activities which are now being directly affected by the defense program are aircraft production and assembly, ship reconditioning, manufacture of electronics equipment, and such ordnance items as tanks. These are however, the end products. We must remember that they in turn affect the production of component parts and raw materials. As a result we find that the manpower work force expansion and the accompanying problems of recruitment are increasing rapidly.

As labor markets tighten there is some evidence that industry is beginning to take account of its manpower needs through some relaxation of hiring specifications, utilization of women, wage rate adjustments, and upgrading and in-plant training. Nevertheless, I am inclined to think that not enough is being done along these lines if management is to keep pace realistically with the changing labor market conditions.

Even though our limited defense program is in its first stages, occupational manpower shortages are already appearing. During the past two months they have increased to a marked extent, chiefly in the professional classifications, such as engineers and draftsmen, and in such skilled occupations as tool designers, machinists, tool and die makers, electricians, mechanics and repairmen.

Occupational Shortages Ahead

Up to recently, civilian demand has been almost wholly responsible for the increasing shortages of skilled workers. With civilian demand still strong and defense demands for skills growing, occupational shortages will become more serious in the months ahead.

One major group of defense employers, the manufacturers of aircraft and aircraft parts, are engaged in widespread recruitment of engineers and other key workers. Aircraft employers are recruiting in many of the nation's biggest cities. The latest reports indicate they are having considerable difficulty in getting the type of skilled workers needed to lay the groundwork for mass hiring and mass production. If the aircraft industry is to get off the ground in its expansion program, it will have to have these key skilled workers as promptly as they can be recruited. If the needed workers cannot be obtained through expanded recruitment activities, it may be necessary to seek voluntary agreements between employers whereby skilled workers in one plant will be enabled to transfer voluntarily

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*An address by Mr. Goodwin before the Society for the Advancement of Management, New York City, Nov. 2, 1950.

Timing vs. Selectivity In Buying Stocks

By SAMUEL M. GOFEN*
Gofen and Glossberg, Investment Counsellors, Chicago

Mr. Gofen reviews peaks and valleys of stock market fluctuations and traces time intervals which might serve as guide to stock purchases. Points out degree to which common stocks are affected by market trends varies and therefore key to investment is not only timing, but also selectivity, with the latter most important. Says experience shows purchase of leading stocks in each group give better results than a policy of buying into small and medium grade companies, and advises purchase of growth type stocks. Concludes wise selectivity in stock purchases is paramount in investment policy.

I want to approach my discussion from the standpoint of the serious far-sighted investor, not the speculator. He is troubled by the question of the suitability of common stocks as investments; perplexed as to whether he is justified in assigning a substantial portion of his savings into such a media. His thinking runs in long-term channels. He is not interested in in-and-out speculation because he has neither the time, the inclination, the tax position nor the self delusion that is often needed by the short-term security trader. However, he is aware of the tremendous forces that have raised the price level and the cost of living; because of the declining value of the dollar, he is skeptical as to long-term bonds and high-priced preferred stocks; he realizes the real estate mortgage market has practically disappeared; and so he concludes that, as a practical matter, he has little alternative except to assign a substantial portion of his savings into common stocks, if he is to maintain the buying power of his capital.

Samuel M. Gofen

Faced with this problem, he must then make a decision on the following points:

(1) Should he adopt a long-term policy of waiting for the bottom of a cycle as occurred in 1921, 1932, 1938 or 1942, and several times between 1946 and 1949, and thereafter endeavor to catch every few years' swing in the market? If so, what are the potentialities, based on a study of the past?

(2) Should he, instead, concentrate on an intelligent program of selectivity, and in accordance therewith make common stock investments as funds become available from year to year, with due adjustments for subsequent changes in group emphasis and specific holdings? Can such a policy, if well handled, result in substantial long-term growth of capital value and annual income at a rate better than that of the general market?

(3) Is there a method of combining the essential points of timing and selectivity so as to be alert to opportunities as they occur, without assuming the speculative attitude which involves being completely in and out of the market too frequently?

Facts on the Timing Question

I believe some answers to these questions will become evident by an examination of certain charts and tables. These three charts bring out the facts on the timing question. If we analyze the figures for the last 53 years, since the averages were first instituted, we note that, in a broad way, the market has followed a pattern of substantially doubling in value in approximately three years, and then losing somewhat less than half of its advance within the next year or two. This held rather well in the movements from 1897 to 1921. The 1921 to 1929 advance of almost 500% in eight years, was more than cancelled by the decline of about 90% in the 32 months to June, 1932. The more normal pattern of the market is shown again by the advance of over 100% from August, 1934 to March, 1937; the decline of 50% to March, 1938; the subsequent 60% advance and later decline, followed by then an advance in 1939 and then a drop of 40% to 1942; then over a 100% advance in the four years ending May 31, 1946. Following this major move, there was a decline of around 25%, with about the same low point reached each year from 1946 to 1949. In the 17 months since June, 1949, there has been an advance of over 40%.

I now want to call your attention to the second chart, entitled "Stock Prices as Multiples of Dividends." It covers all dividend paying stocks on the New York Stock Exchange, and was prepared by the Cleveland Trust Co. It shows that in boom times stock prices approximate or exceed 25 times dividends. In depression times, stocks are priced as low as 10 to 12 times dividends. For the past 15 years, prices have averaged 18 times dividends. The current ratio of prices to dividends is about 16 to 1. If you compared the second chart with the first you will note a strong correlation. The ratio is generally at its highest when the market is at a top; for example—1929, 1936, and 1946.

My third chart, comparing the yield on bonds and common stocks, is especially interesting. It confirms the point I made in the beginning—that an investor has virtually been forced into common stocks by the great difference in yields. It shows that only at the bottom of the market, in 1932, 1938, and 1942, was the difference between bond and stock yields as great as it has been recently. The chart also shows that stock yields were actually less than bond yields in the big boom of 1929, and that the two were almost equal in the three subsequent peaks—1936, the latter part of 1938, and in May of 1946. One of the better tests as to whether a market is on solid ground, assuming a reasonable probability of continuity of earnings and dividends, is to make sure that stock yields exceed bond yields by a good margin. When the two come close together, and especially when stock yields are less than bond yields, there is trouble ahead for the stock market.

There are authorities who claim that the peaks and valleys of market fluctuations are spaced a little differently than I have indicated in my emphasis on a three-year average rise and a

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*An address by Mr. Gofen before La Salle Street Women, Chicago, Ill., Nov. 20, 1950.

Price Controls vs. Inflation?

By A. L. GITLOW*

School of Commerce, Accounts and Finance, N. Y. U.

Dr. Gitlow opposes price controls on the following grounds: (1) it attacks effects not the causes of inflation; (2) it would create new evils; (3) it would lead to further controls, including rationing; (4) it would distort production; and (5) governmentally set maximum prices tend to become minimum prices. Instead, advocates action on roots of inflation through monetary policy, taxation, and sales of govt. bonds to public.

Inflation is like sin. Almost everyone is against it. The only issue is: what weapons will be most effective in the anti-inflation campaign? Some believe price control to be the thing. I cannot agree. These are my reasons:

Abraham L. Gitlow

First, price control attacks the effects of inflation, not the causes. The basic cause of inflation is an increase in civilian spending power relative to the supply of goods wanted by civilians. Larger employment, more overtime, and wage rate increases are giving our people more money to spend, while our military rearmament program is reducing the supply of goods on which to spend it. Therefore, so long as our anti-inflation program relies primarily on price control it will be ineffective.

Second, primary reliance on price control will create new and dangerous evils, like wearying lines of shoppers and seller favoritism for regular customers. If goods are scarce, the question of who gets the limited supplies arises. Shall it be the first in line? If so, how about those unable to spend hours getting a favorable position in a queue? Will retailers not hold back goods from those in line to take care of long-time customers? The last war gave us discouraging answers to these questions. The moment the powerful moral compulsion and emotional pressures attending an all-out war ended, we saw a mushrooming of favoritism.

Third, with price control found wanting, there will be a hue and cry for extended control—specifically rationing. When people meet retailer favoritism, will they refrain from using the money they have to tempt the sellers into showing them favoritism? Will all sellers withstand such temptation? If not, we shall have extensive unfairness and a price control law less effective than prohibition was in its day. To fight favoritism, rationing will be introduced. Without the intense patriotism of total war, and with well-filled pockets whetting the desire of consumers for goods, I cannot see rationing producing anything but widespread black markets, just as prohibition yielded bootlegging.

Fourth, with price control and rationing found lacking, there will be a growing demand for complete and sweeping regimentation and policing of the economy. This is the true logic of price control. Like pregnancy, there is no such thing as a little bit. By avoiding the basic cause of inflation, spending power, it spreads until we become a regimented nation. To be effective, controls are forced by the intimate interrelationships of prices, materials and manpower to move in all directions from the original point of impact. This is partially recognized in the existing standby legislation which requires simultaneous wage and price controls. Such regimentation is probably unavoidable in a total war. It could be destructive without the emotional pressures which accompany such a war. I assume that Communist China and Russia do not want World War III now. I think they would rather wear down and weary the American people. This weariness would be guaranteed by total economic controls in the face of a partial war situation.

Fifth, price control upsets internal price relationships. As a result, businessmen produce the most profitable items and cut down on the least profitable. This happened in the last war. Consumers found, and this is a hypothetical example, that an item like bedsheets would be available while pillow cases would not. Or, certain sizes or colors of an item would be plentiful while other sizes and colors would not. It is difficult to imagine a consumer who would not feel frustrated and helpless in the face of such seemingly irrational experiences.

Sixth, governmentally-set maximum prices have a tendency to become minimum prices. Oddly enough to price-control advocates, there are businessmen who support them for selfish reasons. These businessmen have learned that consumer resistance to a governmentally-approved price is low. Consumers seem to view governmentally-set prices as having the stamp of government approval as to fairness. This deprives the economy of the anti-inflation effects of concerted consumer resistance to such prices.

The Right Approach

These are my reasons for opposing price control now. I would rather our political leaders followed through on a vigorous and courageous anti-inflation program aimed effectively at causes and not at effects. The Administration has been taking steps in the right direction, namely [1]:

(1) Higher income and business taxes;

(2) Tighter credit for housing (regulation X) and instalment purchases (regulation W);

(3) Increased sales of government bonds to the public;

(4) Sales of agricultural surpluses, like cotton, held by the government; and,

(5) Priorities and allocation controls, to be used when and if necessary.

Higher taxes directly reduce civilian spending power. They simultaneously help finance the necessary military expenditures of the government. Tighter credit restrictions prevent buying in the present through borrowing from future income. It reduces the immediate effective monetary demand pressing on the scarce supply of civilian goods. Increased sales of government bonds do what higher taxes do: namely, reduce civilian spending power and increase funds available to the government. Bond sales, however, represent a failure to tax with sufficient vigor. I would prefer taxing because it would pay for rearming as it proceeds, without mortgaging future incomes. Sales of agricultural surpluses by the Commodity Credit Corporation would increase the market supply of such commodities, thus helping effectively to hold their prices down. Priorities and allocation powers would be available to guarantee any supplies required for the nation's rearmament. However, the use of these powers would indicate that consumers were taking too much of these critical items required in our military production program. Therefore, I would add to the above program the use of sumptuary, perhaps excise, taxes. These taxes would be selective, since they would be aimed at reducing civilian purchases of just those items using materials required by the military.

These measures should be supplemented by a sharp cut in nondefense spending by the government. Expenditures for agriculture, housing, public works and new social welfare programs could and should be cut substantially. Also, because of their cost and income-raising effects, new wage increases should be kept to an absolute minimum.

Past experience with price-fixing discourages the hope that it could be very successful in the absence of the powerful emotional pressures attending a total war. Since the full impact of our proposed defense spending will not be felt until the middle of next year, there is still time for an effective anti-inflation program, providing there is the political will to put it into effect. If this will is lacking, we shall wind up with price control, *plus* rationing, wage control and manpower control. In short, we shall wind up with a tightly regimented economy.

*A radio address by Professor Gitlow on "University Forum of the Air" over Station WEVD, New York City, Nov. 17, 1950.

[1] Jules Backman, letter to the editor, *New York Times*, Oct. 15, 1950.

Henry Warner Wire to Ames, Emerich & Co.

PHILADELPHIA, Pa.—Henry B. Warner, Inc., 123 South Broad Street, members of the Philadelphia-Baltimore Stock Exchange, announce a direct wire service with Ames, Emerich & Co., Inc., of Chicago.

Correction

In the "Financial Chronicle" of Nov. 9 in reporting the adoption for a trial period by the Securities and Exchange Commission of an amended plan developed by the Midwest Stock Exchange, it was indicated that the bonds or stocks sold under the plan would be allotted by offering houses on a firm basis of not more than 30% of the securities to member firms engaged in the distribution of securities; this was in error as it should have read "on a firm basis of not more than 50% of securities. . . ."

With McDaniel Lewis

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Joseph L. Stotler is now with McDaniel Lewis & Co., Jefferson Building.

J. F. Reilly Wire to Edgerton, Wykoff

J. F. Reilly & Co. Inc., 61 Broadway, New York City, announce the installation of a direct private wire to Edgerton, Wykoff & Co., members Los Angeles Stock Exchange, Los Angeles, Cal.

With Wesley Hall & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, Calif.—Allan V. Mutty is with Wesley Hall & Co., First National Building.

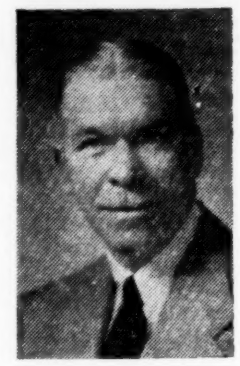
Ripping the Seams Of Our Economy

By JAMES E. McCARTHY*

Dean, College of Commerce, University of Notre Dame, South Bend, Ind.

Dean McCarthy recounts economic and political errors in our foreign and domestic policies which are now ripping the seams that hold together our sound national economy. Criticizes policy in appeasing Russia and the demagoguery in political attitude toward big business. Attacks price support program as sapping our agricultural economy and contends social security laws are destroying independence of individual. Denies assumption that only the bureaucrat knows what is best for people, and calls attention to inconsistency of excess profits taxes, while urging greater defense production.

At the risk of some over-simplification, I am going to state a few hypotheses with which you and I have become painfully familiar. They run so completely counter to common sense that they are foolhardy. To say that they are untenable is a gross understatement. But no matter: our political leaders have committed themselves — and consequently our lives and fortunes — to them with a zeal and singleness of purpose that is worthy of devotion to the 10 commandments. They established the premises. Now we are face to face with the turmoil and uncertainty that are their logical outcome.



James E. McCarthy

Mistakes in Foreign Policy

First, in the field of international relations, until just recently the theory has been that beneath uncle Joe Stalin's drab gray tunic beats a misunderstood heart of gold; that Stalin had within him the makings of an eagle scout, and that if he were properly handled he would prove susceptible to the persuasive arts of American diplomacy, give up his driving ambition for Communist world domination, and see to it that Russia became a tractable member of the family of nations.

The only trouble with that theory is that it has not worked. Offhand, I cannot think of one with shakier evidence to support it, or one that was more thoroughly foredoomed to absolute failure. The statesmen who dreamed it up were impervious to facts. They have been curiously and, for all I know, wishfully blind to the long record of Russian perfidy, and, what is worse, too willing to sacrifice principle for expediency.

They were wrong from the start. Unless they are invincibly ignorant, they know now, as they should have known all along, that there can be no compromise, on any terms, between two political philosophies that not only have nothing in common, but also are unalterably opposed to each other by their very nature. The combined genius of all the global thinkers who ever wore striped pants and cutaway coats cannot reconcile the Russian ideology which makes man the creature of the State with the concept of a nation conceived in liberty and dedicated to the proposition that all men are created equal.

Nevertheless, our relations with Soviet Russia have been predicted upon the naive belief that the two can be made compatible. Some such vagary lay behind our recognition of the U.S.S.R. back in 1933—a mistake, if ever we made one. It cropped up again in Yalta, and still again in the temporizing and fumbling that brought us to the threshold of World War III.

Normally, the relationships between nations are on a give-and-take basis. But we chose to learn the hard way that there is nothing normal about Russian Communism; and that the Politburo's idea of international harmony is all-take and no-give—if, and for as long as, they can get away with it. Now at last our diplomatic air castles have tumbled down around our ears. Our policy of appeasement has backfired. We have proved that we are not only soft-hearted, but soft-headed. I, for one, cannot help wondering if we would have had to send American troops to Korea if we had been as consistently realistic and tough-minded with the Russians as they have always been with the rest of the world.

I mention our mishandling of the Russian situation because it is a notable, and even a representative and symptomatic, instance of the Alice-In-Wonderland, Through-The-Looking-Glass, attitude that has been characteristic of American bureaucracy for a long, long time, almost ever since we first heard the magical half-truth, "The Only Thing We Have To Fear Is Fear Itself."

Demagoguery in Attitude Toward Business

A second hypothesis, close to the hearts of the politicians, the economic medicine men, and the self-appointed Messiahs of high and low degree, is that big business is *ipso facto* bad, and that practical management men have, *per se*, all the predatory instincts of a pack of coyotes. From the very beginning of the New Deal, American business has been chivved and badgered, harassed and hamstrung, to a point where it is competing in an obstacle race, and the man in the street cannot be blamed very much if he has trouble distinguishing between the Directors of General Motors and J. Edgar Hoover's current list of public enemies.

The shameless demagoguery of the government's attitude toward business — and big business especially—is well illustrated by a passage from a statement made by Ben Fairless, President of The United States Steel Corporation. Mr. Fairless, who knows what it is to be a government target, was appearing before the Subcommittee on the Study of Monopoly of The House Committee on the Judiciary. I quote Mr. Fairless:

"It was only a few years ago—in the war years—that the government gloried in the size of its industrial giants and honored them for doing successfully the giant tasks—that our national security demanded. It called upon United States Steel to outproduce, single-handed, all the Axis Nations put together. We did so. It called upon our giant research

*An address by Dean McCarthy before the Convention of the Commercial Finance Industry, sponsored by the National Conference of Commercial Receivable Companies, Inc., New York City, Oct. 16, 1950.

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Our Need for Gold Standard In a War Economy

By PHILIP M. McKENNA*
President, Kennametal Inc.
National Chairman, The Gold Standard League

Maintaining "we were tricked into going off the gold standard," Mr. McKenna denounces Gold Reserve Act of 1934, and urges Americans regain the right to own and circulate gold coins. Cites depreciation of dollar's purchasing power and continuous Treasury deficits as due to lack of gold coin standard. Says gold standard will make cost of war substantially less.

When there is a fire in a house some people frantically throw the plate glass mirrors out of the windows and carefully carry the feather pillows downstairs! In the following forty minutes I hope to show you that it is as dangerous to deny to the people of America the use of sound money in time of war as it has been silly to do so in time of peace. It is as dangerously stupid as it would be to collect all the micrometers from machine shops and forbid their use, under the guise that there is a war on and we can't permit accurate measurments going on in time of war!

Philip M. McKenna

Let me read to you what I wrote over seven years ago. It was published May 27, 1943, in the "Commercial & Financial Chronicle."

"Money is a tool which mankind has found useful. Without this invention of a common denominator by which evaluation of alternate courses of action can be accomplished, mankind is without a guiding compass. The industrialist asks, for instance, should I replace one process of manufacture by another method, and calls on the cost engineer to make an equation. Into this equation go the hours of work of persons at the varying rates of pay to which their skill, training and other considerations entitle them; the amounts of materials, electricity instead of gas for instance, or a larger weight of cast iron for a smaller weight of higher priced steel; and the labor and skill required to make the changes. The farmer asks does it pay to grow corn on this field and feed it to hogs, or should I grow wheat and sell it for making flour. The politician is not aware of the nicety and accuracy of these computations required for wise conduct of business, industry and agriculture, and how distortion of the measuring tool, money, may lose our country actual man hours and physical goods. To destroy a large animal it is only necessary to strike certain brain centers with a bullet, and the animal dies because its faculty of coordination is destroyed. Similarly, when an important economic principle, normally guiding and coordinating the activity of a nation, is destroyed, the nation is apt to be rendered impotent and unable to defend itself.

"When the normal functions of money are inhibited by laws, and restraints are put upon the use of money for facilitating exchanges of goods and services the country as a whole loses efficiency, because a clumsy barter method or the like must be employed instead. By doing away with money, in whole or in part, we do not alter the underlying motivation of the individual which is the possibility of gain. Exchange simply takes another and often wasteful form. For example, since monetary profit in war industry is frowned upon, means are found to induce corporation managers to expand facilities with government money, with the unstated but real motivation that they shall have control of the acquired machinery and plant after the war. Log-rolling of all sorts takes place. Instead of having to produce only the goods necessary to fight the war an equal amount of goods in value must also be ordered and producers induced to accept in lieu of monetary profits the additional facilities they will acquire and which it is deemed impolitic to allow as monetary profits. Small wonder that our standards of living are lowered, because of the inefficiency of motivation by barter!"

Our present danger is from Communist Russia. You may be sure that they depend upon the weakening effect of the use of irredeemable paper money, the only kind we have now, to soften America for defeat. For Lenin is reported to have said, there is no surer, no subtler way of weakening a capitalistic country, to take it over for Communism, than to debauch the currency. I don't believe Americans will be so stupid as to continue to play into Russia's hands. That's why I'm here to tell you about it tonight. "In vain the fowler spreads his net in sight of the bird!" The American eagle, I am told, has a double eyelid. When in repose, a filmy, transparent inner eyelid covers his eye. But when alerted or in flight the eagle draws up that slight obstacle to keen vision, and sees with his naked eye with a far-sighted vision which is characteristic of the eagle. I am here tonight as head of the Gold Standard League, to alert you and all Americans to take off that film which obscures our sight and take a good look at our present monetary policy, how it came about and what we must do to correct it.

You are fortunate, gentlemen, as men who must understand and deal with money, as professional accountants, that you have lived in a time when you have had opportunity to observe and experience nearly a complete cycle in monetary theory, from that of the orthodox gold standard prevalent throughout the civilized world prior to 1913, through the period of toying with the idea of money based upon index numbers, to the brilliantly expressed but false theories of the late Lord J. M. Keynes. These theories were seized upon by politicians, at least in the part that pleased them, to indulge in deficit financing made possible by diluting the currency and expanding bond issues. That became possible only after 1933, when our currency was no longer required to be redeemed in anything of any specified value, thus letting them issue promises which they cannot redeem and do not intend to redeem.

Since then we have had deficits in 15 out of 17 years and in the 2 years we had small surpluses it was by inadvertance. Thus they could spend money to ensure their re-elections by buying favor with first one section of the voting public and then another at the expense of the public purse. It was really an unseen and unvoted tax upon all those who have relied upon the dollar, in forms of savings payable in dollars such as savings bank deposits, life insurance, endowment policies, pension agreements, savings bonds, preferred stocks and bonds of all sorts. It took from the value of such savings by the insidious processes of monetary inflation. It is as dishonest as watering milk. It fell upon the small saver who perforce has to make his investments in such simple forms. Already since 1940 it has resulted in the taking away of half of the values of such savers. A $1,000 bond bought in 1940 when paid off today will buy only what $450 would have bought then.

In France, log-rolling politicians have taken 99% of the value of such savings by inflation since 1914. It is no mere coincidence that during that process communistic ideas flourished, weakening that country. The sit-down strike began in France from whence it came to Detroit as a tactic in 1936. Monetary inflation was at work in France to weaken the middle class, the saving people. Today, despite the expenditure of Marshall plan dollars, but without the restoration of sound currencies in France and other European countries, competent observers agree that Russia would find little resistance to military action. France had been weakened by debauching the currency. Switzerland, unweakened by monetary inflation, presents a tougher obtsacle.

Tricked into Going off Gold Standard

You have seen many strange happenings during your lifetime. Our eyes behold a Presidential candidate winning the election on a platform pledged to economy in Federal government and maintenance of the gold standard. Let me read to you from the campaign speeches of F. D. Roosevelt in 1932. On July 30, 1932 at Albany he said, "Let us have the courage to stop borrowing to meet continuing deficits. Stop the deficits. Let us have courage to reverse the policy of the Republican leaders and insist on sound money. This concerns you my friends, who managed to lay aside a few dollar for a rainy day." And on November 4, 1932, only four days before election day, he said, "The businessmen of this country, battling hard to maintain their financial solvency and integrity, were told in blunt language in Des Moines, Iowa by the President (then Hoover) how close an escape the country had some months ago from going off the gold standard. This, as has been shown since, was a libel on the credit of the United States. No adequate answer was made to the magnificent philippic of Carter Glass the other night which showed how false was that assertion. And I might add, Senator Glass made a devastating challenge that no responsible government would have sold to the country securities payable in gold if he knew that the promise, yes the covenant, embodied in those securities was as dubious as the President of the United States (Hoover) claims it was." Later in that same speech Roosevelt said, "The Democratic platform specifically declared 'We advocate a sound currency to be prescribed at all hazards.' That is plain English. In discussing this platform on July 30, 1932, I said, 'Sound money is an international necessity not a domestic consideration for one nation alone.' In other words, I want to see sound money in all the world."

Certainly we Americans who elected a President on that platform did not give any mandate to him to foist the curse of irredeemable paper money upon us within less than a year from the time he made those statements.

You have seen that despite that pledge and in times of peace, America went off the gold standard March 9, 1933. Wittingly or unwittingly it followed the Communist plan and reported advice of Lenin as to the best way to weaken a capitalistic country.

Would it be too much of a miracle to see the gold standard return in time of war and threat of war, very soon now? In the coming struggle we are at a disadvantage without that necessary implement of free man. We went off the gold standard to try an experiment in times of peace, when it was alleged our problem was too many goods at prices too low. That experiment was abandoned January 30, 1934, when it failed to work out as its advocates had claimed. The majority of the country's qualified monetary economists had formed the Economists' National Committee on Monetary Policy in November 1933, to advise the President against that action and inform the public of its ultimate consequences.

You may read in the late B. M. Anderson's book "Economics and the Public Welfare," how unnecessary it had been for America to go off the gold standard. We had successfully withstood the first foreign run on the gold of the United States in September 1931, when England abandoned the gold standard. "The country and the Federal Reserve banks met the shock with calm incredulity. Our whole financial tradition rested on the principle that we would pay gold. Grover Cleveland in the middle 1890's had defended our currency with gold payments under much more adverse conditions. During this foreign run on gold, domestic hoarding of gold in the United States was absolutely negligible. There was a great deal of hoarding among the people of Europe, especially in France. Our own people did not hoard gold. In one Federal Reserve district the total hoarding of gold was $5,000. In another, one of the largest, it was less than $100,000. The total for all Federal Reserve districts was less than $20 million and of this $6 million was accounted for by two known transactions which involved, not domestic hoarding, but hoarding by domestic agencies of foreign concerns. The second foreign run on our gold came in the Spring of 1932. Our gold monetary stock dropped over $450 million between the end of March 1932 and June 1932. We met this withdrawal without any shock at all," says B. M. Anderson.

It was not until rumors regarding Roosevelt's gold policy, undenied by those in position to deny it, that domestic hoarding became a factor in January and February of 1933. The President-elect had refused to cooperate with President Hoover during the interim from November to March 4, 1933. There was growing concern in the minds of the Democratic Congressional leaders as to the kind of advice he was getting and as to the people he was getting advice from. Anderson says in a footnote, "I learned this in conversations with several of the Democratic leaders in January and February. One of the members of the Brain Trust told me in January or early February of 1933 that he was one of the four men who were running the Government of the United States in the incapacity of President Hoover and the absence of President-elect Roosevelt. I discounted his statement but could not entirely disregard it."

We now realize, from the revelations of historians of those years, that there were many communists in strategic places, men who believed that Communism was the coming thing. What is more natural than that they should aid that trend, which they thought in some perverted way meant their future opportunity. They evidently persuaded Roosevelt to go off the gold standard, which Lenin had said was the most effective step to prepare a country for taking it over for Communism. Incidentally, it was among the early moves made by Mussolini and Hitler.

At any rate on March 9, 1933, in a hastily adopted Act of Congress, blanket authority was given the President to do pretty much as he saw fit regarding money and banking, including authority for the seizing of gold and gold certificates in the hands of the people. Very speedily, April 5, this authority was invoked. Under penalty of fine or imprisonment for failure to comply, citizens were required to turn all gold coins, gold or gold certificates into the Treasury. That such an act of arbitrary tyranny was not promptly resented can be explained as follows.

Gold U. S. Standard for Century

The American people had been nurtured in a period of nearly a hundred years, with a minor exception during and after the Civil War, during which time United States currency had been synonymous with the gold which it represented. Paper currency, both gold certificates and Federal Reserve notes, were unfailingly redeemed in coin of the standard of weight and fineness which was our standard of money since 1837, namely gold at $20.67 an ounce. The people were like the American Indians, who never having been exposed to white man's diseases were decimated by measles, small-pox and other diseases from foreign shores. The American people had developed no resistance to the age-old disease of monetary inflation, practiced by tyrants of many ages, from the times of Nero and other tyrant Roman emperors, through the Middle Ages by coin-clipping Kings, by James II in Ireland and by the French Revolutionists with their assignat money.

Macauley, the British historian, had to say about a similar act by James II in 1689, "It is remarkable that, while the King was losing the confidence and good-will of the Irish Commons by faintly defending against them in one quarter, the institution of property, he was himself, in another quarter, attacking that institution with a violence if possible, more reckless than theirs. He soon found that no money came into his Exchequer. The cause was sufficiently obvious. Trade was at an end. Floating capital had been withdrawn in great masses from the island. Of the fixed capital much had been destroyed, the rest was lying idle. . . .

"The poverty of the Treasury was the necessary effect of the poverty of the country, a public prosperity could be restored only by the restoration of private prosperity; and private prosperity could be restored only by years of peace and security. James was absurd enough to imagine that there was a more speedy and efficacious remedy. He could, he conceived, at once, extricate himself from his financial difficulties by the simple process of calling a farthing a shilling. The right of coinage was undoubtedly a flower of the prerogative; and, in his view, the right of coining included the right of debasing the coin. Pots, pans, knockers of doors; pieces of ordnance which had long been past use, were carried to the mint. In a short time, lumps of basic metal, nominally worth nearly a million sterling, intrinsically worth about a sixtieth of that sum, were in circulation. A royal edict declared these pieces to be legal tender in all cases whatever. A mortgage for a thousand pounds was cleared off

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*An address by Mr. McKenna before the National Association of Cost Accountants, Detroit, Mich., Sept. 21, 1950.

Canadian Securities

By WILLIAM J. McKAY

Since Canada took the courageous step of permitting her currency to find its own level in one free market, fortune so far has certainly favored the brave. Simultaneously with the announcement of the freeing of the dollar, favorable developments in the economic and political fields conveniently appeared to confirm the wisdom of the exchange move. The signing of the U. S.-Canadian Defense Pooling Agreement immediately following the exchange announcement was a notable event which gave promise of providing lasting stability to the Candian economy. The October trade figures likewise gave further current evidence of the favorable trend towards the elimination of Canada's chronic imbalance of trade with the United States.

In addition to these highly encouraging factors recent favorable publicity has been given to the long-range Quebec-Labrador iron project which at last is approaching its practical stage. If this sudden flood of good news were not enough it is now announced that ore from the vast ilmenite deposits at Allard Lake, Quebec, will shortly be moving to the newly completed Quebec Iron and Titanium Corporation plant at Sorel for separation of iron-ore from titanium-bearing ore. This new $20 million plant is the first of its kind in the world and it would appear that Canada will shortly replace India as the leading supplier of titanium ore, the source of the new wonder metal titanium. Yet another item of news which reflects favorably on the Canadian economic situation is the recent report from officials of the International Pipe Line Co., that Alberta oil crossed the international border en route from Edmonton, and is expected to reach Superior, Wisconsin, at the end of the month.

It is hardly surprising therefore that the trend of the Canadian dollar has been almost uninterruptly upward since it was permitted to find its own level. The uniformly favorable news concerning Canadian economic and political developments also provide sufficient reason for the curious absence of liquidation of the heavy U. S. speculative positions in Canadian dollars and Dominion internal bonds. As revealed in the recent Toronto address of Mr. Graham Towers, Governor of the Bank of Canada, the Canadian exchange reserves increased in the four months prior to the freeing of the dollar by $335 million. According to Mr. Towers purchases of Canadian securities by non-residents accounted for a substantial proportion of this imposing increase in the official reserves.

This large scale exchange position held principally south of the border consequently still poses a difficult problem for the Canadian monetary authorities. While the economic and political atmosphere remains favorable, liquidation will be deferred. There is even reason to believe that the total of speculative holdings has been increased since the freeing of the dollar in anticipation of its early return to parity with the U. S. dollar. In view, however, of official cognizance of the extent of the speculative position overhanging the exchange market, it is hardly likely that the Canadian dollar will be permitted to rise to a level which would invite wholesale liquidation. It is also logical to suppose that any further sharp rise will be discouraged in order to avoid an abrupt cessation of the foreign influx of investment funds.

As previously mentioned the seasonal factor will also soon exert a powerful influence on the course of the dollar. With the advent of the long Canadian winter, exports from the Dominion normally decline sharply but imports, largely on account of fuel requirements, tend to rise. Furthermore the tourist traffic, which operates in favor of Canada during the summer season, will appear on the other side of the ledger during the winter.

It is probable also that the anticipated results of the U. S.-Canadian Defense Pooling Agreement have been over-estimated in view of recent political developments south of the border. The somewhat curt U. S. rejection of the Canadian aluminum offer possibly provides a significant straw in the wind. Congressional approval will be required in order to give practical effect to the agreement, but as a consequence of the trend of the recent election results it is certain that foreign spending will be subject to closer scrutiny. The conclusion is reached therefore that in the period immediately ahead the Canadian dollar is likely to be exposed to greater strain than during the past months when the economic barometer has been set consistently fair.

* * *

During the week there was little change in the external section of the bond market but the internals were inclined to weaken in sympathy with the somewhat easier tendency of the dollar and the persistent decline of the government bond market in Canada. The corporate-arbitrage rate on the other hand strengthened sharply to 7%. Stocks continued to display remarkable resiliency and new high levels were reached by the industrial and base-metal groups. Canadian General Electric, Canada Packers, Asbestos Corporation, Consolidated Smelters, International Nickel, Acadia Uranium, and Cobalt Lode were notably in demand. Western oils following their recent sinking spell showed a disposition to rally led by Anglo-Canadian, Federated Petroleums, and Central Leduc. Golds on the other hand continued their recent persistent decline.

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Our Need for Gold Standard In a War Economy

by a bag of counters made out of old kettles.

"The creditors who complained to the Court of Chancery were told by Fitton to take their money and begone. But of all classes, the tradesmen of Dublin, who were generally Protestants, were the greatest losers. At first, of course, they raised their demands; but the magistrates of the city took on themselves to meet this heretical machination by putting forth a tariff regulating prices. Any man who belonged to the caste now dominant might walk into a shop, lay on the counter a bit of brass worth three pence and carry off goods to the value of half a guinea. Legal redress was out of the question. Indeed the sufferers thought themselves happy, if, by the sacrifice of their stock and trade, they could redeem their limbs and their lives. There was not a baker's shop in the city round which twenty or thirty soldiers were not constantly prowling. Some persons who refused the base money were arrested by troopers and carried before the Provost Marshal, who cursed them, swore at them, locked them up in dark cells, and, by threatening to hang them at their own doors, soon overcame their resistance. Of all the plagues of that time none made a deeper or a more lasting impression on the minds of the Protestants of Dublin than the plague of of the brass money. . . .

"There can be no question that James in thus altering, by his own authority, the terms of all the contracts in the kingdom assumed a power which belonged only to the whole legislature. Yet the Commons did not remonstrate. There was no power, however unconstitutional, which they were not willing to concede to him, as long as he used it to crush and plunder the English population."

I may say parenthetically that I have noted in the meetings of citizens in the United States who rise in protest against our present irredeemable money system that a very large proportion of them have names indicating Irish and Scotch descent. Macauley says that the plague of brass money was long remembered.

You have seen what was done in 1933. A citizen giving up a $20 gold piece containing nearly an ounce of gold was handed a $20 Federal Reserve note which was not promised to be made good in anything of any particular value. Then began an experiment for which the Administration found colorable authority in the advice of the late Professor Warren of Cornell. The latter was an agricultural economist and was not especially qualified in the field of monetary policy. His idea was that prices generally, and especially agriculture prices, were too low and that the way to remedy that was to increase the price of gold.

Accordingly Roosevelt and Morgenthau met at breakfast, as disclosed in the latter's diary, and raised the price at which the Treasury would buy gold. They nonchalantly chose arbitrary lucky numbers. If Warren's theory had been correct, they were arbitrarily altering the agreements between free men all over the United States by arbitrary and tyrannical ukase. But as the 70 to 80 members of the Economists' National Committee on Monetary Policy had correctly foretold, it doesn't work that quickly.

From the January-February level in 1933, wholesale commodity prices showed an increase of 17% up to November 25, instead of the increase of 57.7% which, according to the devaluationist theory, should have accompanied a reduction of 36.6% in the gold value of the dollar. And that 17% would have taken place anyhow, as general production activity rose from January-February levels of 1933 before the end of July, which was before the devaluation policy of raising the price of gold had got under way. Certainly the extent it would go was not reckoned upon by those carrying out the majority of serious business transactions. Monetary economists had pointed out that under the conditions prevailing, devaluation does not cause prices to go up immediately but the inflationary effect breaks out later, often years later, when inflation is least desirable in the national interest.

At any rate that experiment was abandoned January 30, 1934, when the buying price of gold was $34.58 and the Gold Reserve Act became law January 30, 1934, which again fixed the weight of the gold dollar at 15-5/21 grains of gold, nine-tenths fine. The price of gold was fixed at $35.00 per ounce, instead of $20.67. The new dollar contained only 59.06% as much gold as the dollar which had been defined since 1837. The Administration went on to new experiments such as the N.R.A. and the A.A.A.

In a cynical political sense, the experiment had been highly successful. It gave the Treasury a profit of $2,806 million by merely writing up the value of the gold which they had in the Treasury and what they had bought, plus what they had taken in under threat of fine or imprisonment from the citizens at $20.67 an ounce nine months earlier. The $2.8 billion could be spent by the Administration for purposes which would ensure its popularity with large segments of voters despite the fact that had the voters been asked, through their representatives in Congress, to submit to taxes for such purposes they would not have been allowed to have the money.

Fixed Gold Standard Requisite for Sound Currency

The Gold Reserve Act of 1934 contained the provision that the President might alter the gold content of the dollar further but that provision expired in 1943 and after consideration by Congress was not further extended. Thus the dollar is defined as 15-5/21 grains of gold 9/10ths fine, or 1/35th of an ounce of gold, and has been fixed at that now for 16 years. Fixity of weight of precious metal in the unit of value is a prime requisite of a reliable currency. But, they forgot to repeal the laws prohibiting American citizens from owning gold and gold coins, enacted April 5, 1933, in an alleged emergency.

Under the present system we make good to foreigners, through foreign central banks, demands upon our Treasury in gold at $35 per ounce. Last September, Guiseppi Pella, the Italian finance minister, told the Italian chamber of deputies that he had brought back from America 116.2 metric tons of gold, nearly $200 million, from the American Treasury. An Egyptian newspaper last winter was sent to me headlining the fact that $25 million in gold had arrived from America. The present system has been designated as the limited gold bullion standard, referred to also as the limping gold standard. The foreign central bank can have its claims against the Treasury redeemed but the American citizen, whose gold it is, is denied that same privilege. To whom does the gold belong but to the individual Americans who earned it by their work? By what reasoning can a government withhold it from the American citizen while paying it out at our standard, $35 per ounce, to foreign bankers?

Why must the American people regain that elementary freedom, the right to have and circulate our standard of value of gold and gold coins?

As accountants, and therefore men capable of analyzing money into its various functions, I need hardly remind you of the requirements for sound money to meet the needs of a free people. For practical purposes they are first as a medium of exchange for day to day transactions, second as a reliable standard for deferred transactions, third as a store of value, fourth as asset reserves for a central banking system and fifth for use in foreign exchange. Collectively these five requirements of sound money are one of the most important means of protecting human liberty.

For day to day transactions you may think that the dollar as a mere bookkeeping unit of account should be satisfactory. But a little thought will show you that since not all transactions are done simultaneously injustice may occur if it deteriorates rapidly in purchasing power. In Germany in 1922 and 1923 when the rate of inflation increased rapidly, workmen demanded their pay daily, in order that their wives could spend the money the next day, before prices went up. The taximeter of the taxicab in which I rode when I went into Germany in September 1922 read "multiply reading by 160" and a week later read "multiply by 240." The amount of postage stamps required was uncertain and changed frequently. From China, just before it fell to the Communists, I received a letter by air mail having three $5,000 stamps on it. Many coin vending machines have become obsolete because they cannot be redesigned to take a coin other than a nickel. There is a demand for the coining of 7½c and 12½c coins, because the nickel and dime are no longer satisfactory as media of exchange for small transactions.

It is for the second function which money must perform, namely for use in deferred transactions, that gross injustice and chaos results when printing press money is used and deteriorates even slowly. The promises men live by, in modern days become impossible without a fixed standard. I mean those necessary transactions in which money is advanced now to be paid back in 10 or 20 years. Everyone having a savings account, life insurance, endowment policies, pensions, savings bonds, or other types of bonds or preferred stocks have large portions of their value taken from them by the insidious processes of monetary inflation.

In modern France for instance since 1914 those who trusted such forms of savings have lost 98% of their value in terms of the gold standard. It is generally the small savers upon whom loss by monetary inflation falls most heavily, namely the wage earner, the widow, and the children for whom savings and insurance were provided by those who sought to protect them. They are not politically effective and generally suffer their losses in silence. The terrible temptation to seize, bit by bit, the collectively enormous savings of the defenseless small saver by deficit financing is greater in the U. S. A. than it was in France for example, for a greater amount may be taken by a government turned predatory in America where the trustful people have

over $200 billion in savings of that nature.

Paper Dollar Has Depreciated

Already one-half of their collective funds has been taken during the past 10 years. A $1,000 bond bought in 1939, when paid off today, will buy less than $500 would have bought in groceries at the time it was trustfully saved.

The other day it was said America might some day have a trillion dollar national income and the average income be over $12,000 a year. In France they actually have over a trillion franc national income and wages are 10 times what they were a generation ago. But are the people better off? No, they live in overcrowded ancient houses in poor repair and in tiny apartments, despite or because of rent fixing and promises of government housing during the past 35 years. More irredeemable paper money and bonds does not assure a state of welfare among the people. Quite the contrary — they need a fixed standard of value attainable practically only by strict adherence to the gold standard with currency always convertible to the citizens.

As part of your professional work you see to it that each manufactured item bears its share of the cost of replacing plant equipment as it wears out.

The time honored use of "original cost" has become outmoded. We have all listened to endless discussions regarding proper cost figures to be used to replace equipment that now costs twice what it did when installed. Profits are overstated and investors are unable to tell the true worth of their investment in a company.

The third function for which money must serve is for exchange between persons in at least 105 trading nations of the world. The otherwise impossible task of setting the exchange rates of their different currencies is readily solved when you know the price of gold in terms of any currency. Tyranical governments now try to resist such free exchange. For instance, the British socialist government refuses to permit English women to travel out of the country wearing customary gold ornaments.

The freedom to move to another country is dependent upon having means to transfer values, to take value with you for a new start in another land or to support yourself there. The gold standard does that. If the real objective of a government is to encourage trade and civilized intercourse between its people and other peoples of the world they can make it possible by restoring the coinage and circulation of gold in their own country. That would permit fruitful exchange instead of wasteful bulk purchase barter deals arranged by clumsy boards and bureaus. Revival of trade between peoples of different countries will take place only when we restore individual freedom to own gold and to transfer it without let or hindrance.

The fourth function of money is to provide a store of value for the individual. If the final valid entity in our society is the human being, as expressed by Judo-Christian philosophy upon which our Constitution is based, he has a right to protect himself against man-made monsters who may destroy or weaken him and his children. Experience shows he cannot rely upon them, come war or revolution or unjust seizure of powers and eventual collapse of such aggregations of political power. The citizen who is not compelled to rely upon the promises which they do not redeem and do not intend to redeem, but who can use the gold standard, has a defense.

Gold coins minted 2,000 years ago uncovered in North Africa by American soldiers building a gun emplacement were accepted a few weeks later in Cairo at the full value of the gold in them. Can the same be said of any of the issues of irredeemable paper money printed by many governments during all the history of fiat paper money? Even if preserved and legible what would be the value of the French assignat paper money of 1794, modern French paper money of 1914, Italian, Belgium, German paper money of 1913, to say nothing of German marks and Russian rouble paper money.

Recently the British paper pound was devalued after repeated denials by Sir Stafford Cripps, the finance minister, that they would devalue British currency. Even though U. S. officials of fiscal responsibility may likewise reiterate similar pledges, what reliance may we place upon their words when they do not make good their words by redeeming the present currency in the standard which they say they will maintain, namely that which defines the dollar as 1/35th of an ounce of gold. As a practical matter, the denial to American citizens of the right to use the only universally accepted standard of value, gold and gold coins, while still maintaining the fiction that we are on the gold standard, is an act of tyranny which cannot survive without bringing its own retribution in our economics.

Thwarted from seeking a store of value in the normal way of investing to be paid back only in currency of doubtful value, the thrifty practices by which capital is provided for industry slows down, producing stagnation and unemployment. It's safer to put the money into a subsistence farm, or to buy cattle, or even as some financial advisors recommend, uncut diamonds, postage stamp collections, raw metals, and other goods which retain value.

The fifth function of money is for use as asset reserves for central banks. Experience shows that fractional reserves are economical and efficient in the proper use of gold. It is not necessary to have an ounce of gold for every $35 in redeemable currency outstanding any more than it is necessary for a bank to have at its tellers' windows every Monday morning all the currency to pay off all depositors in the unlikely event that they should all demand their money on that particular day. Life insurance companies do not carry all of the money which would be required in the event that all of the insured should die in any particular year. Actual experience is a good guide in such matters.

City architects in Detroit for example, do not provide enough bridges out of the city so that all of the automobiles might be accommodated in any single hour. If an emergency is encountered the authorities may suspend traffic except as they direct, until normal conditions may be restored. The stopping of specie payments by the Treasury on March 7, 1933, was referred to by Secretary of the Treasury Woodin as a "suspension of specie payments" and specifically described by him as being only for "the time being." Have we had a continual emergency for 17 years?

It may surprise you to learn that we have more gold in our Treasury today, not only absolutely, but relative to the total net outstanding paper currency plus the total of all net bank balances, than we had in 1926 or other years when we maintained the gold standard with convertibility to Americans holding our paper currency. With 23½ billions in gold we have 13% reserves compared to the total of all currency plus bank deposits. In 1926 it was 8.4% and in 1921 as little as 7.4% yet we did not find it necessary to stop specie payments as an emergency in those years.

Has the confidence of Americans in the financial honesty of our government fallen so low that even with reserves 50% greater than in years when we maintained specie payments the government dare not resume that essential element of honest financial policy? Any member of our government in Washington who fears to return to convertibility now on the grounds that it might embarrass the Treasury is branding himself and the government of which he is a part as meriting the distrust of the people of this country.

Money which will perform all of the functions I have enumerated, has always been based on gold. In the past 20 years most nations have abandoned gold, except in international transactions, and have substituted managed currency systems, which is a polite way of saying they resorted to the printing presses to pay their debts. The so-called management has resulted in a currency that always buys less and less and never buys more.

During the 150 years our money was exchangeable for gold it is significant that we balanced our budget most of the time. Including war years the average was better than two out of three years. We never went longer than four years without balancing the budget.

In the 17 years we have been off the gold standard we have balanced the budget only twice. In those 17 years the deficits total 2½ times all the taxes collected in the previous 154 years.

The reason for these continuing deficits and their size should be apparent. When the government had our gold and would not redeem our currency, it could print and spend money to their hearts desire. The people had lost "The Power of the Purse" to their government.

Currency rose from three billion to 27 billion. Bank deposits rose from 32 billion to over 140 billion. National debt skyrocketed from 22 billion to 250 billion. Meanwhile production rose about 1½ times. Only the miracle of our ability to produce under the free enterprise system has prevented complete inflation before now.

The manner in which a redeemable currency prevents unwise government spending is simple. We had a fractional reserve system of currency which means that there was outstanding anywhere from six to 12 times as much currency and deposits as we had gold to redeem them. As long as the people had confidence that deposits and currency would not be expanded artificially, most of our gold remained in the Treasury and the banks.

When the government went into debt without approval of the people, gold started to leave the banks. This action, which would destroy our money if continued, quickly became known to the Treasury officials and members of Congress. As a consequence, Congress seldom went into debt except during time of war, which action was approved by the people. As I have mentioned before, it resulted in a balanced budget on an average of over two out of every three years.

Congress has been on a 17 year spree. They have bought their reelection time after time with printing press money. Does it seem likely that they will stop without compulsion? Does it seem likely that they will cease to listen to the pressure groups — the veterans, the farmers and all the other groups who think that money grows on trees?

"Our Need For the Gold Standard in a War Economy" is the title of this talk. Those who have studied monetary economics are convinced it is a necessity in any economy.

Gold Standard Will Reduce Government Spending

As I have shown you, we have ample gold reserves. We can return to the gold standard tomorrow morning, but Congress will then be under the compulsion to spend our money wisely.

It will make the cost of war appreciably less. It will result in a genuine effort to reduce non-essential government spending. It will make government debt financing much sounder and easier. I need not tell you that government bonds under our present system may not sell so readily in the light of recent experience with the value of World War II bonds.

This is not just everybody's problem, which generally means no one's. It is **your** problem, and here are four things you can do to help:

(1) Tell these facts to others, to your friends and neighbors, to your associates.

(2) Support candidates for the House and Senate who believe in thrift, who believe that our budget must be balanced, who know that this war must be on a PAY AS WE FIGHT basis, who will support the Gold Standard Bill, H.R. 3262, now in committee.

(3) Buy war bonds and at the same time fight to maintain the integrity of the dollar by restoring the gold standard.

(4) Become a member of the organization I represent, The Gold Standard League. If this message is to reach the far corners of this country, we must have your help.

The point of no return is very near, gentlemen. At the end of the present road is a 10¢ dollar or less and the ashes of our liberty and freedom consumed in the fires of inflation.

Railroads Can Meet War Requirements: Gurley

Santa Fe executive, however, warns any governmental change weakening our basic industrial economy will thwart objective of creating efficient transportation system. Pleads for equality of treatment for rails in transportation regulation.

In an address before the Transportation Section of the American Petroleum Institute's National Convention at Los Angeles, Cal., on Nov. 15, Fred G. Gurley, President of the Santa Fe Railway asserted that "Come Hell or high water," and barring any governmental changes in our basic industrial economy, the nation's railroads will meet in full measure the requirements of national security, national defense and the military.

Fred G. Gurley

"We have no more important task today than to insure that the rules we adopt to govern the conduct of our affairs in the new phase of the cold war, or any other kind of war, do not destroy our free institutions," Gurley declared. "Our fight against the totalitarian system would defeat itself if it should lead us into a regimented society."

Ability of American industry to attain government's objectives of large-scale rearmament coupled with continuation of economic assistance and furnishing of military supplies to friendly nations of the free world will depend, Mr. Gurley said, in great measure upon the strength of our industrial economy, he stated.

"When we think of that strength, we inevitably realize that our profit and loss system of privately owned property is the warp and woof of our free way of life," Gurley said. "Change that, and you are on the wrong road at once."

Some forms of emergency control are inevitable in any rearmament program, Mr. Gurley related, but he suggested they "should be kept to a minimum and should be retained only long enough to meet the demands of rare necessity."

"Those measures that would provide an entering wedge for altering the basic structure of our institutions must be entirely avoided," he warned.

Appealing against "discriminatory" government legislation and subsidies, Gurley urged "fair and impartial treatment of all forms of transportation."

"A sound transportation policy can best be assured by committing the administration of promotional as well as regulatory activities affecting all forms of transportation to a single independent commission reporting directly to Congress," he said.

"There are deeply rooted fundamental objections to placing regulatory functions in the executive branch of the government," he declared.

A single independent commission devoted to development and maintenance of a well balanced and coordinated system of transport embracing all types of carriers would make for "freedom from political influence and pressure of special interest groups, stability and continuity of policy, and for decisions reached upon the merits of every problem after thorough and careful consideration of all points of view," Gurley said.

Emphasizing the importance of the railroads to the nation's overall transportation setup, Gurley said:

"When we face the harsh realities of war, we see more clearly than at any other time that our economy consists of two basic factors, namely, men and material. The test for survival revolves largely around the wise, scientific and economical use of these two factors. If, contrary to our devout wishes, we must fight another war with Russia as an opponent, we will have an adversary liberally supplied with both. When it comes to the economical use of men and material in providing mass land surface transportation, nothing equals the railroads."

In view of a national debt which already is over $256 billion, Gurley cautioned against "unnecessary outlay of government funds," particularly in creation of new transportation facilities. He suggested instead that more attention be given by the government to keeping the present transportation system in running order.

"In the light of the dependence placed upon the railroads during war, national security requires that the basic railroad plant must be in position to meet its obligations," he said. "This need is emphasized by the fact that during World War II the railroad industry carried more than 97% of all organized military traffic and more than 90% of the war freight."

"The railroads ask no monopoly," he concluded. "They seek the removal of the discriminatory provisions which now abound in the regulatory law. They ask for the elimination of subsidies to competing forms of transportation, all of which are well past the developmental stage and are able to stand on their own feet without subsidies. They ask that where other forms of transportation are allowed the use of publicly provided facilities they should pay a fair user charge sufficient to pay a just proportionate part of costs of construction, maintenance, and operation. What they ask is for fair play and equality of treatment for all. They ask no more."

The Excess Profits Tax And Electric Utilities

By HAROLD H. SCAFF*
Vice-President, Ebasco Services, Inc.

Attacking excess profits tax as unsound, inflationary, and particularly harmful to utilities, Mr. Scaff points out utilities already have their rates regulated, and thus excess earnings would be impossible in a regulatory sense. Stresses need for heavy capital investment by utilities and slow rate of capital turnover. Foresees decline in equity financing under excess profits taxation, and warns it will lead to further nationalization of electrical power.

It is distressing to think that we should today be discussing the impact of an excess profits tax on the electric utility industry when it is only five years ago that Congress repealed one that had plagued us for six long years. There are few persons informed on the excess profits tax and its consequences during World War II who will not agree that this method of taxation is economically unsound. It is particularly harmful to utilities because of their peculiar economic and regulatory aspects.

Harold H. Scaff

Such a tax is inflationary because it works to reduce the incentives for management to control costs and make the most efficient use of materials and manpower. I am sure many of you can recall from the days of the last excess profits tax the decisions that were made to spend materials and manpower because the ultimate cost to the enterprise was something like 15 cents on each dollar of expenditure. Those who know tell us that it is administratively unworkable and requires excessive compliance costs, as well as involving years of costly examination and litigation before the tax liability is finally determined. It provides no sound basis for determining the profit necessary to continued growth of industry.

If, however, we are to have an excess profits tax to meet clamor for one that has arisen since the outbreak of war in Korea, it remains to be seen if a law can possibly be written that will provide a workable tax, and one that will not be too detrimental to our economy.

In discussing the impact of an excess profits tax on the electric utility industry, there is no need for me to review the technical provisions of the previous excess profits tax law, nor the basis of computing the tax. I am sure many of you know more about that than I do.

I do want, however, to review briefly the peculiar economic and regulatory aspects of the electric utility industry and to show how these made the effect of the excess profits tax felt so severely in the last world war. Using the experience of the last war period as an indication, I want to speculate on the impact of such a tax today in light of changed conditions, and to tell you generally what is being done to assure that the industry's viewpoint is being understood and considered.

In the first place, state and Federal regulatory commissions have wide powers over the privately owned electric utilities. Among the more important ones are the jurisdiction over the pricing of their service and the issuance of securities.

Basis of Rate Regulations

In pricing their service, electric utilities' rates are usually established by commissions at a level which will permit them to cover their expenses, depreciation, and taxes and to earn a fair return on the rate base. The fair return is sufficient only to cover interest on indebtedness and dividends on stock, and to make a reasonable addition to surplus to maintain a company in healthy financial condition.

Thus it can be seen that it is generally impossible for electric utilities to have excess earnings in the regulatory sense of the meaning. When their earnings go above the point established by commissions as representing a fair return, utilities are usually required to reduce their prices, which in turn reduces their earnings.

The very large investment required by electric utilities to enable them properly to serve the public is one of the most important economic characteristics of the utility industry. On the average, electric utilities require approximately four dollars ($4.00) invested in plant for every dollar ($1.00) received in revenue, which means that capital is turned over once every four years. This compares with a turnover of capital of two or three times a year for light industries and once a year for heavy manufacturing industries.

Because of this slow rate of capital turnover, electric utilities must obtain vast sums of capital for fixed investment. Hence, the financing of the investment is of paramount importance to them. The slow turnover also creates a particularly heavy burden of Federal taxation on the electric utilities, while large investment in plant and equipment makes them particularly vulnerable to the imposition of ad valorem taxes.

Unlike many other industries, the plant and equipment of electric utilities have long lives, which makes long-term debt financing desirable. This kind of financing reduces the cost of the capital and makes possible lower prices for service to the public.

The average debt ratio to total capitalization in the private electric utility industry at the end of 1949 amounted to 49%. According to the latest estimates, long-term debt of all manufacturing companies amounted to only 12% of total capitalization.

Federal and state commissions supervise closely the issuance of securities in details such as the type of security that may be issued, the cost at which it may be issued to the public, protection to investors and other features. Regulatory commissions are also concerned with obtaining a balanced capital structure for the protection of investors and reducing the over-all cost of money which reduces the cost of service to the public.

In view of these peculiar economic and regulatory characteristics and considering the effect of the excess profits tax on the electric utilities in the last war, there is no doubt that an excess profit tax based on the 1941 Act and subsequent amendments would have far more serious consequences on the electric utility industry today than it had at that time.

New Utility Financing Required

Consider the matter of financing that confronts the electric utilities to procure the funds for their large expansion program. Since they are closely regulated as to rates they may charge, only a small portion of their construction program can be financed from retained earnings. Unlike manufacturing enterprises which in 1949 retained 55% of their earnings to plough back into plant, the electric utility industry from relatively much smaller earnings retained only 25% in the same period. For this reason and also because of heavy capital requirements utility companies are dependent on security markets to a much greater degree than unregulated business.

The impairment of earning power which would result from the imposition of excess profits taxes would seriously jeopardize their ability to raise money for the construction of new facilities. Not only will there be the problem of actually raising additional funds and preserving a reasonably balanced financial structure without the excessive use of fixed obligation securities, but equity funds, if obtainable, would require much higher yields in order to attract the investor. This, in turn, would result in consumers being saddled with a higher cost of service.

The effect on the earning power of an electric utility, which is a major factor in the market value of its securities, may be seen from the following comparison, which uses a simple capitalization of $50,000,000, consisting of $25,000,000 of 3% debt and $25,000,000 common capital stock. A net earning of $3,000,000 after normal and surtax of 45% but before excess profits taxes, which represents a 6% return on the total investment of $50,000,000, is likewise used for illustration. The excess profits tax is computed on a basis of the 1941 Act and subsequent amendments.

	Normal and Surtax	Normal, Surtax and Excess Profits Taxes
Taxable Net Income	$4,090,900	$4,090,900
Deduct Income Subject to Excess Profits Tax	------	2,380,900
Net Inc. Subject to Normal & Surtax	$4,090,900	$1,710,000
Normal and Surtax at 45%	$1,840,900	$769,500
Excess Profits at 85.5%	------	2,035,700
Total Taxes	$1,840,900	$2,805,200
Net Income before Interest Expense	$4,840,900	$4,840,900
Deduct Taxes	1,840,900	2,805,200
Net Return	$3,000,000	$2,035,700
Rate of Return	6%	4.1%

This illustration shows that the earned return declines from 6% on investment to 4.1% after the application of an excess profits tax. Such a return is wholly inadequate to service the capital of the utility, thus impairing its credit standing and hence its ability to raise capital for essential expansion.

A return of 4.1% would provide common stock earnings of only 5% which is obviously inadequate. Assuming that the utility continued to pay out in dividends the same proportion of available common stock income, the price that could be realized for its common stock would be reduced by 40% to 50%. Likewise, the coverage for debt interest would decrease, which would affect the price on any future sale of debt securities.

The seriousness of this impairment of credit standing can be better appreciated when it is realized that the electric utility industry has the following construction program confronting it for the next few years.

The forecast of capital expenditures through 1953, shown below, was prepared recently by the Edison Electric Institute.

(In Millions)

	1950	1951	1952	1953	Total
Construction Expenditures	$2,200	$2,200	$2,200	$2,200	$8,800
New Money	1,474	1,394	1,310	1,223	5,401
Debt	843	814	784	752	3,193
Equity	631	580	526	471	2,208
Depreciation accruals and ploughed back earnings	726	806	890	977	3,399

These figures show that $8.8 billion will be required by the electric utility industry for new construction during this period, of which nearly $5.4 billion will have to be raised in the securities markets. A significant portion—$2.2 billion — will have to be raised through equity financing, that is to say through those securities which are especially vulnerable to the imposition of excess profits taxes.

Question of Equity Financing

Equity prices are very sensitive to excess profits tax proposals. The Dow-Jones index for utilities dropped in 1942 to 45% of the 1939 base. The same pattern was repeated in the present crisis when utility common stocks dropped to 85% of the June 23 base on news of impending excess profits tax proposals.

Obviously, any decline in utility security values will raise the cost of money to the utility companies. Utilities need large amounts of money for their plant and equipment, which makes the cost of money an important item to them. Utility yields, particularly on equity securities, have shown marked increases since the Korean crisis, and it is certain from the experience in World War II that the imposition of excess profits taxes will raise their cost of money to still higher levels.

The burden of excess profits taxes on the electric utilities will be much heavier during the present emergency than was even the case during the last war. The reason for this is that the industry's refinancing program is substantially over and, hence, no further major reductions in interest charges can be anticipated.

Furthermore, the advantage which many utilities had in filing consolidated tax returns will, to a large degree, be not available to most utilities since many holding companies in existence in World War II have been liquidated under the Holding Company Act.

Another factor which will adversely affect the tax position of the utilities is that while substantial property additions have been made, earnings from this new plant have not as yet been realized.

The utilities' rapid technological progress, which has produced substantial economies in steam plant operation, substation operation, etc., will serve only to penalize the industry, for a major portion of these economies will materialize in the years subsequent to the base period years. Hence, the excess profits tax liability of progressive and well managed systems in particular and of the industry in general will be increased.

Taxation and Nationalization

The inequity of taxing private electric utilities and not governmentally owned operations has often been pointed out by the electric utilities in its presentations to Congress. The imposition of further taxation on the private utilities can only result in even greater pressure being exerted towards socialization of the industry.

Such socialization would remove the utilities from the Federal tax rolls and result in a loss of tax revenue to the Federal Government. As an example, the total cumulative tax loss through 1949 to the Federal Government of the 75 properties which were transferred to government ownership from 1941-1945 amounted to $36 million, while the total tax loss of the 107 properties which went off the tax rolls between 1937 and 1945 amounted to $92 million.

An excess profits tax would again nullify regulation because the method of computing earnings allowed by regulatory authorities and the methods provided by the Internal Revenue Code in computing taxable earnings are fundamentally different.

The so-called invested capital base is really a fictitious capitalization allowing only 50% of the borrowed capital and, in turn, applies to the so-called invested capital tax credits ranging from 8% where the amount is not over $5 million to 5% of the excess over $10 million.

Thus the earnings of the industry are regulated by one set of standards promulgated by the Federal or State agency and at the same time by other standards set by the Internal Revenue Code which completely nullify the end result sought by the regulatory agency. This would frequently result in a rate of return after payment of excess profits taxes considerably below that originally set by the regulatory commission as necessary to keep the utility in a healthy operating and financial condition.

Payment of Excess Profits Taxes No Indication of Excess Earnings

The fact that a utility paid an excess profits tax is by no means evidence that it was earning an excessive return. Under the method of computing excess profits taxes in World War II it was possible for a utility to be liable for excess profits tax even though its earnings were greatly insufficient and below those allowed by the regulatory commissions. A special subcommittee of the National Association of Railroad and Utilities Commissioners appointed to study the effect of excess profits taxes in 1944 on the utility industry had this to say:

"The excess profits tax is a war measure designed to yield revenue. . . . The amount . . . may be determined by . . . factors which do not enter into a determination of a fair return. As a result a particular utility may be required to pay an excess profits tax where in fact it is earning less than an adequate return on its rate base."

The amount that utilities would be able to retain from earnings subject to excess profits taxes would be so small that regulatory authorities would, by one means or another, bring about a reduction of such earnings to eliminate substantially the excess profits tax liability that the utility would otherwise incur.

An example of the pressure to which the utilities were subjected because of the excess profits tax situation may be had from a notice of general hearing issued May 18, 1944, by the Michigan

*An address by Mr. Scaff before the Accounting Section of the Southeastern Electric Exchange, St. Petersburg, Fla., Nov. 9, 1950.

Public Service Commission. The notice required the following:

"Every public utility subject to the jurisdiction of this Commission is directed to prepare forthwith a forecast or estimate of all the taxes as to which it will incur liability during the year 1944; and, if it appears to the utility from such forecast or estimate that it will incur a liability during the year 1944 to pay a Federal 'excess profit tax' so-called, then it is directed to prepare and file with this Commission, not later than the first day of June, 1944, a statement containing its forecast or estimate of the Federal 'excess profits taxes' as to which liability will be incurred by it during the year 1944, a statement of a possible adjustment of its rates and charges so as to avoid the incurring of such a liability, and a statement of a possible adjustment of its rates and charges so as to avoid the incurring of such a liability, and a statement of the effect of such an adjustment of its rates and charges upon the income available to it as a return upon its investments.

"Notice is hereby given to any public utility reasonably certain to incur liability during the year 1944 to pay any Federal 'excess profit taxes,' so-called, on operations under its existing schedules of rates and charges, that all of its rates and charges are subject to adjustment, as of Jan. 1, 1944, to avoid the incurring of any such liability and a subsequent payment of any such tax."

One of the country's first lines of defense is in its industrial capacity to produce the sinews of war and the goods of peace. Over 70% of that industrial capacity is powered from central station sources. Such reliance on outside sources of power means that any impairment of the private utilities' ability to serve industry would result in serious and perhaps irreparable injury to this country's war potential and to its peacetime economy as well.

The private electric utilities supplying 80% of the Nation's power requirements will certainly have a key role, not only in the period of preparedness, but also in the event that an all out armed conflict takes place. It is important, therefore, that the financial health of the electric utility industry be kept at a reasonable level consistent with the general war economy of the country. Its ability to raise money to finance its expansion in this period of preparation is of paramount importance and this must be kept constantly in mind when any consideration is given to a future excess profits tax.

Tax Recommendations

The Edison Electric Institute and the American Gas Association prepared jointly a memorandum on the excess profits tax and members of those two associations have discussed the memorandum with Colin Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation. The following recommendations were made in the memorandum to give consideration to the unique economic and regulatory characteristics of the electric utility industry:

"(1) Under any method of determining excess profits net income, deductions shall be allowed for normal tax and surtax in ascertaining excess profits net income.

"(2) Under the invested capital method of determining the excess profits credit, borrowed capital shall be included at 100% thereof with a corresponding adjustment to excess profits net income for interest thereon.

"(3) Under the invested capital method, the excess profits credit shall not be less than 6% of the invested capital.

"(4) Under either invested capital method or the average earnings method there shall be allowed a credit at an incentive rate on all capital additions, whether equity, borrowed or retained earnings made during the first excess profits tax year and all years subsequent thereto.

"(5) Under the average earnings method of determining the excess profits credit, there shall be added to the credit otherwise determined not less than 6% of all net capital additions whether equity, borrowed or retained earnings added during the last two years of the base period and all subsequent years prior to the first excess profits tax year.

"(6) Under the invested capital method of determining excess profits net income, interest on borrowed capital added back to normal net income to obtain excess profits net income, shall be reduced by the percentage used in excluding inadmissible assets.

"(7) The penalty rate on consolidated return reporting shall be eliminated.

"(8) Adequate relief provisions shall be enacted in excess profits tax law to relieve hardship, remove inequities and relieve situations that are not covered by the usual statutory provisions."

In addition to these eight specific recommendations, a blanket recommendation was made to establish a point below which excess profits would not occur. It reads as follows:

"In the case of public utilities, the excess profits credit for any taxable year shall be not less than the aggregate of the normal tax and surtax plus an amount not less than 6% of the total of outstanding borrowed capital, capital stock and surplus, as reflected on the corporate books of accounts, averaged for the beginning and end of the taxable year, with a corresponding adjustment to excess profits net income for interest on borrowed capital."

In conclusion, the major points that I have emphasized in explaining the electric utilities' position with respect to the enactment of excess profits tax legislation are:

(1) An excess profits tax is fundamenally unsound, inflationary in character, wasteful in the use to which manpower and materials can be put and administratively unworkable.

2) Utilities are regulated by governmental bodies as to amounts they may earn, which makes it generally impossible for them to earn true "excess profits."

(3) Nevertheless, during World War II many regulated utilities, already earning less than what their regulatory agency itself regarded as a fair return, paid large amounts of excess profits taxes.

(4) The reason why this was possible was that excess profits tax legislation neglected to make provisions for the unique characteristics of regulated utilities. Some of these characteristics are:

Very large capital investment which turns over more slowly than in most other industries;

Continuing need for additional amounts of capital for expansion to meet the demands of the public and of national defense;

Reliance on the capital markets for this needed money, because regulation prevents earnings beyond the costs of supplying the service;

The consequent need for maintaining the integrity of the investment by maintaining reasonable earnings without interruption;

The inability of utilities to increase prices of their services to offset increases in their taxes and other costs;

The lag in earnings from newly constructed plant.

(5) Regulated utilities are, therefore, subjected to inequitable treatment which harms not only the utilities themselves but also the public they serve when they are required to compute "excess profits" taxes on the same basis as other, unregulated industries.

(6) The electric utilities' expenditures on additional plant and equipment through 1953, the coming period of rearmament, are estimated at nearly $9 billion. Of this amount, more than $2 billion will be raised in equities or through those securities which are particularly responsive to the adequacy of earnings. If such earnings are impaired, it will be exceedingly difficult, if not impossible, for the industry to sell such stocks.

(7) The importance of the electric utility industry to national defense cannot be overestimated. It is one of the country's first lines of defense, since over 70% of the country's industrial capacity is powered from central station sources. Any impairment of the financial integity or financing ability of the utility industry would seriously jeopardize the country's rearmament program.

(8) Provision should be written into any excess profits tax legislation that will give consideration to the unique regulatory and economic characteristics of the electric utility industry, therefore, assuring capital for the expansion program for the coming period of rearmament.

Wall St. Held Largely To Blame for Lack of Interest in Securities

Urges education on stock market begin at high school level.

Much of the blame for the fact that only slightly over 10% of the population of the United States owns securities must be shouldered by Wall Street itself, Henry Gellermann, public relations director of the New York Stock Exchange firm of Bache & Co., told the Forum of the Consumers of America last night at Columbia University. Mr. Gellermann declared that if the rest of American industry were as lax in its advertising program as the securities industry, "we would all be out of business today."

Henry Gellermann

Pointing to a recent survey which disclosed that 50% of the American people between the ages of 18 and 48 know nothing about the stock market than the fact the market crash occurred in 1929, Mr. Gellermann urged that education on the subject begin on the high school level. He said that such a program should have the firm support of industry itself not only from the business point of view, but as a fixed moral responsibility to the nation and the community.

Mr. Gellermann said that if the financial community loses the battle of public opinion and consequently public good will, it will cease to be a formidable competitor for the public's dollar.

He said that institutional or educational advertising is a major vehicle for taking the full Wall Street story to the general public. The prime purpose of financial advertising, Mr. Gellermann said, should be to create and maintain better public understanding of the financial firm, the industry and the economic system of which both are a part.

Public Utility Securities

By OWEN ELY

Cleveland Electric Illuminating Company

Cleveland Electric Illuminating Company is one of the comparatively few large utility companies which believes in advertising on an extensive scale to attract new industrial customers—which in turn bring commercial and residential business. The company has widely advertised its central location in the Cleveland-Northeast Ohio area, "which offers the world's richest and most concentrated market—more than half the population of the United States and Canada within 500 miles." The company also points to the fact that more than $700 million has been invested in new industrial expansion in this area in the postwar period—over $1 billion if utility investment is included. Cuyahoga County alone is reported to have topped the combined output of five of the six fastest growing counties in the southwest and Pacific Coast areas. Advantages of the Ohio area include unlimited fresh water for industrial growth, extraordinary shipping facilities to all parts of the world, manpower trained in traditional craftmanship, excellent plant sites, cultural and educational advantages, low taxes and cheap electric power.

Cleveland Electric's three interconnected power plants supply 135 communities in 1,700 square miles in northeast Ohio. In the past five years the company has spent $100 million on expansion. Next year the company will add 150,000 kw. capacity, bringing its total to 1,100,000 kw. The system is part of a five-state interconnected electrical network which will have 11,590,000 kw. of capacity in 1951. President Lindseth of Cleveland Electric Illuminating, who formerly headed the Edison Electric Institute, is very optimistic on the future growth outlook for his own company and the entire electrical industry—he expects both to triple in size by 1970.

However, in his recent address before the New York Society of Security Analysts, Mr. Lindseth emphasized the financial stability of his company rather than its growth prospects. The company is conservatively capitalized, and for the past 25 years the capital structure has averaged (with some fluctuations) 39% bonds, 17% preferred stock and 44% common stock. At this time, because of the $25 million bond issue of September, 1950, the ratios are 46½% debt, 12½% preferred stock and 41% common stock equity. These common stock equity figures are well above the unweighted utility average.

The company has for some years maintained a sound pension system, and pension funds now aggregate nearly $15 million (not reflected in the balance sheet) which is sufficient to cover fully the estimated actuarial liability. The company's depreciation reserve is 30% of gross plant account (35% before the present rapid construction program) which is well above the national average. Despite liberal rate regulation in Ohio (the state law permits cost of reproduction less depreciation to be used as the rate base) the company's average residential rate is below the national average; and despite appliance competition from a strong natural gas system (Consolidated Natural Gas) residential electric use is above the national average.

Anticipated peak load this year will be double that of 1940. Plant capacity was increased by 180,000 kw. in 1949 and 150,000 kw. are scheduled for competition early in 1951, with 250,000 kw. more in 1952-53. Thus by 1953 capacity will be 72% greater than in mid-1949.

The company is now earning about 6⅓% on its average capitalization, about the same as 10 years ago. A small rate adjustment has been requested (yielding about $250,000 a year before taxes), the principal purpose being to place residential and small commercial schedules on a sounder basis in connection with rapidly increasing residential usage. The company does not plan to ask for any substantial rate increases unless the burden of higher Federal taxes and fuel and wage costs prove too onerous. A rise in the Federal income tax rate from 45% to 50% would cost stockholders about 27¢ a share. The company is at present maintaining about a 70% dividend payout, about the same as for the industry as a whole.

Regarding fuel, coal is now costing them about $6.58 a ton and has not varied greatly from this level in the past three years despite disturbances in the coal mining industry. However, proposed increases in freight rates will add to costs. Eighty percent of their power plants can be converted from coal to oil, so that the latter can be used in emergencies or at the occasional times when its cost dips below that of coal. Natural gas is not economically available because of the big demands of the local steel industry for gas. The company does not make wide use of escalator clauses for fuel and other costs (as Cincinnati Gas & Electric is now doing) since they consider this unfavorable from a public relations angle. However, they do have coal clauses in their big industrial contracts.

Regarding wage costs, while wage rates seem to increase each year, this is partly offset by new economies in power plants, substations, etc. For example, elimination of one man at a sub-station (for each of three shifts) was found to effect an overall savings of about $25,000 a year.

There is some municipal competition in the area but the company is not concerned about it. The municipal plant in Cleveland, operating practically on a tax-free basis, has been competing with them for 37 years; it used to be about 16% as large as Cleveland Electric, but now is about 12%. There had been three competing municipal systems in smaller cities, but the company has acquired one of these and is negotiating for the purchase of another.

The company earned $3.33 per share on the common stock for the 12 months ended Sept. 30 after adjustment of nine months' income taxes to a 42% rate. This earnings rate exceeds that of any corresponding period in the last 20 years. The dividend rate in 1950 has been $2.40 compared with $2.20 in 1948-49, $2.00 during 1943-47, and higher rates in 1941-42. The stock is currently selling on the Stock Exchange around 42 to yield 5.7%.

Caution in Common Stocks For Trust Funds

By ADRIAN M. MASSIE*
Executive Vice-President, New York Trust Co.

New York Trust Company executive, in reviewing trust problems arising from low fixed-income yields and high income taxation, warns "prudent man rule," under which stocks may be included in trust funds, "is an intangible yardstick" and not a safe guide for trustees who must proceed more conservatively than when investing own funds. Advocates trustee, in combining fixed-income securities with common stocks, confine themselves to high grade securities of fairly short maturities and to common stocks having stability and growth. Gives list of selected stocks.

Fifteen years ago this month I had the honor and pleasure of talking to the New Jersey Bankers Association on the subject of "Trust Investing." Today I am here to speak to you on the same topic. Strangely enough, while great changes have taken place in this 15-year interval in the political, economic and social aspects of the world, trust investing has not changed appreciably. Since world conditions have changed so drastically, I think it might be well to refresh your memory on a few of the important points that will have a bearing on our discussion.

In 1935, the Federal Government was just giving birth to the new "welfare state," which today is robust and thriving. Federal deficits appeared very large and caused much concern, but were explained away as something temporarily necessary—to be replaced by surpluses as soon as there was a sufficient recovery in business. For instance, in the fiscal year ended June, 1935, total Federal receipts amounted to $3.8 billion, total expenditures to approximately $7 billion, leaving a deficit of $3.2 billion. For the fiscal year 1951, it is hoped the Budget will be in balance, or in any event, that the deficit will not be large. This feeling is based on the unusual circumstance of the Treasury receiving the benefit of new taxes before heavy defense spending gets under way. For the fiscal year 1952, it is estimated receipts may be as high as $45-$50 billion, with expenditures of approximately $54 - $57 billion, and a possible deficit of $8 billion which would be larger than the entire Budget of 1935. This political financial bungling is discussed very casually by the politicians and no apologies are offered.

In June, 1935, the Federal debt amounted to $28.7 billion; today it is approximately $258 billion. Currency outstanding in 1935 was $5.5 billion; today it is $28 billion. Commercial bank deposits in 1935 were $41 billion; today they amount to $164 billion. In 1935, taxes received from individuals totaled $527 million; in 1950—$17.9 billion.

In this same interval we were called upon to fight World War II, which resulted in almost completely disrupting the economy of the world. Since the close of the war, the United States has invested over $42½ billion in the recovery of friendly nations and, at the present time, is preparing—because of the Korean episode and other incidents — an armament program which will entail the investment of untold billions of dollars. It naturally follows that all of this has had a very serious effect on our economy and has brought us face-to-face with the problem of inflation.

As I said before, during this period there has been very little change in trust investing. The most notable appears to have been the modification of investment rules governing legal trusts in the various States. Some of these States have made minor modifications in their legal laws permitting a limited liberalization of investments. The change in the New York State rule, effective July 1, 1950, which permits the purchase of non-legal investments to the extent of 35% of the market value of the trust, seems to have been the most significant. Of growing importance is the formation of common trust funds as a convenient mechanism for handling the investment and administrative work of smaller trusts. Another change, the effect of which will undoubtedly be felt in the future, has been the formation of huge pension trusts by corporations. In the coming years these trusts could have a very serious impact on investment markets because of their ultimate size.

*An address by Mr. Massie before the Trust Section of the New Jersey Bankers Association, Asbury Park, N. J., Nov. 16, 1950.

The Rule of Prudence

Trustees have been thinking a great deal about the rule of prudence, and have been discussing the advisability of purchasing large percentages of common stocks in trusts. This is the framework around which I wish to talk to you today, and I am sure that you want the discussion to revolve principally around the question of the part played by common stocks in trust investing. As a preliminary, however, I would like to make a few comments about the fixed income section of trusts.

In the light of the fact that yields for fixed income securities are almost at their lowest point in years, it is my feeling that these yields do not permit any reserve against credit risk or provide any reserve for a change in interest rates. It seems to me, therefore, that a trustee should at this time confined fixed income investments to those of very high calibre and with bond maturities not in excess of 20-25 years. I say this because the record indicates the life of an average trust is probably not over 22-23 years. Since preferred stocks are subject to a change in the credit risk factor and in interest rates, the amount of these held in a trust should be limited and, if possible, a trustee should seek out those stocks which provide for an annual sinking fund. During boom periods it is a common characteristic of fixed income securities for the yield between very high grade issues and low grade issues to approach each other. This is not true in periods of depressed business conditions when the spread between those yields widens considerably.

These remarks apply with equal emphasis to tax exempt securities. The large increase in taxes over the years has resulted in reducing the yield on tax exempt issues to a point which would have been thought unbelievable many years ago. It has also resulted in fixing the yield for rather low credit tax exempt bonds close to that obtainable on high grade bonds.

There is one further point to be considered in trusts which use both fixed income securities and equities. If the fixed income items are not of the highest quality, it could be very difficult to shift from these securities into equities, when market conditions permit, without suffering a severe loss in their principal value. With these few thoughts about the fixed income portion of a trust, let me now turn to the more glamorous subject to the investment of trust funds in common stocks.

Investing in Common Stocks

We have heard a good deal in recent years about the rule of prudence. Under this general ruling a trustee theoretically is permitted to invest the assets of a trust in the same securities as those used by a prudent man when handling his own affairs. It seems to me that this is a very intangible yardstick to go by and I am sure that your own experience with supposedly prudent men has shown they do many things which a corporate trustee would not sanction. One of the most common is to invest in the stock of companies with which they are directly connected. Under the rules of divided loyalty it would be impossible for a corporate trustee to follow this procedure. In other cases, a prudent man will often invest in some new and fairly small concern because he has great confidence in the management. Other prudent men would scoff at rules of diversification and would not hesitate to concentrate a large portion of the assets of a fund in one security.

I can mention many other points on which I believe ideas and practices of the prudent businessman would differ greatly from the theory of trust investing. I think that what we are trying to do is to establish a set of rules based on the theories used by an *average* or *composite* prudent man when investing his own funds.

Many prudent men sit on the boards of directors of banks and trust companies and their thoughts on the investment of discretionary funds are reflected in the annual reports of common trust funds. Just as a matter of interest I reviewed the annual reports of 10 common trust funds and found that the common stock proportion of these funds ran from a high of 51% to zero, with the average somewhere in the range of 30-40%. From this it can be seen that the average prudent man handling the investment of a bank or trust company has a more conservative point of view than is held by the individual prudent man.

For many years the guiding principle of corporate trustees has been to seek stability of principal and continuity of income and that rule has been followed conscientiously. Now we are faced with the thought that this is not enough; that the trustee should invest a fund in such a way so as to preserve its purchasing power both as to principal and income value. This approach raises many questions — both interesting and difficult. It is hard to determine whether the pressure of public opinion on trustees is motivated by the fact that we have been in a bull market for common stocks, or by the threat of further inflation and devaluation of the dollar. This pressure appeared in the 1928-1929 period but we saw very little of it in the depression period of 1932-1933.

The corporate trustee recognizes the decreasing purchasing power of the dollar and attempts to solve resulting investment problems within conservative limits There are several factors, however, which make this difficult to do. The most important is the large increase in personal income taxes which has materially reduced the net spendable income. The second is the reduction in interest rates fostered by the authorities, which also has had the effect of reducing the spendable income. The third is the great decrease in the purchasing power of the spendable dollar which affects the value of both principal and income. The fourth is the difficulty of selecting investments, even among common stocks, which over a period of time will increase in principal value and in income in proportion to the increase in the cost of living.

As I pointed out earlier, personal income taxes have increased from $527 million in 1935 to an estimated $18 billion in 1950. To study the impact of taxes on income, I have made a rough calculation covering incomes of $5,000, $10,000, $15,000 and $20,000 from assumed trusts set up in 1935 to yield about 4%. A $125,000 trust created in 1935 to yield 4.1%, returned an income of $5,150. The tax at that time was $160 leaving spendable income of $4,990. Based on the income tax which will be effective in 1951, $125,000 today would have to be invested at 5% to gross $6,100. Against this would be a tax of $1,071, leaving a net spendable income of $5,029. Similarly, if a trust of $550,000 had been created in 1935 to yield 4%, the gross income would have been $22,300, the income tax $2,294 and the net spendable income $2,006. The same $550,000 would have to be invested at 6.6% today. This would give a gross income of $36,200 and a net spendable income of $20,050. The tax would increase, however, from $2,294 to $16,500.

I have used these two extreme cases to illustrate the point. Personally, I know of no way that it would be possible, except through the use of 100% common stocks, to obtain a gross yield of 6.6% today. Of course, if a larger net income was used, the increase in rate between 1935 and 1950 required to offset the impact of taxes would be even greater. It should be borne in mind that in addition to the increased yield required to offset the impact of taxes, it would be necessary to increase the net income further by obtaining a still higher yield in order to compensate for the change in the cost of living index between 1935 and 1950. The U. S. Bureau of Labor Statistics Cost of Living Index was 98 in 1935; today it is 173. While I have not made a calculation of what increase would be needed it is apparent that it would be a large figure.

Selection of Common Stocks

Let us deal now with the problem of a trustee to select investments, even among common stocks, which would increase the principal value and income in proportion to the increase in the cost of living, or expressed another way, the decrease in the purchasing power of the dollar.

Many articles I have read on the desirability of using common stocks as a hedge against inflation have dealt with the subject from the standpoint of either the Dow Jones Averages or some other study of index numbers. Unfortunately, a trustee is called upon to make certain important decisions—(1) how much of the fund should be invested in common stocks; (2) what particular common stocks should be selected and (3) when should these common stocks be purchased. I have never yet seen an investor who bought all of the stocks of the Dow Jones Averages, and it is well known to you that these Averages had been changed from time to time over the years. Therefore, if a trustee had invested in the Dow Jones Averages the result probably would differ greatly from that recorded by the Services. An investor makes his selection of common stock on certain theories and endeavors to choose those stocks which he feels will serve the purpose of the fund over the years. We all know what disappointments have been encountered in this phase of investing. Just for fun I examined a list of 188 selected stocks, which was published in October, 1950, to see what the results would have been if they had been purchased in 1935 and held until 1950. Many of the names are familiar to you and I am sure they appear in the portfolios of most corporate trustees. Out of this group I selected stocks which in the 1935-1950 period either did not increase at all in market value or increased only a small percentage of the original 1935 cost. I thought I would give you the names of a few of these issues, presented herewith, so that you can judge for yourself the difficulty in selecting stocks which marketwise and incomewise would counterbalance the increase in the cost of living.

Problem of Beneficiary vs. Remainderman

When we look for a high income from equities you know that it automatically forces us to consider the purchase of stocks whose chances of enhancement in value are limited. In other words, to benefit the income beneficiary the remainder interest would certainly not keep pace with any change in purchasing power. On the other hand, if stocks of companies which we felt had better than average chances of growth were held, the income beneficiary would be severely penalized because of the relatively low yields involved. During a period of extreme inflation stock prices, as you well know, fluctuate within very wide ranges. If the timing of common stock purchases happens to synchronize with the top of one of these violent swings, it may take years before the stocks recover to the prices at which they are carried on the books. This predicament may, I think, become more intensified in the future because of the uneven impact of social and economic conditions on a given corporation.

Buying in a Bull Market

Before yielding to the pressure to buy more common stocks it should be borne in mind that with the exception of a few minor setbacks in the stock market in 1938, 1940, 1942 and 1946, there has been an almost uninterrupted bull market. It should also be remembered in trying to estimate future income from stocks that dividends received in the 1935-1950 period have been larger than in nearly any other period, with the possible exception of 1928-1929. Therefore, if we act on the theory that a large percentage of any trust funds should be in common stocks as a hedge against a further increases in taxes and in the cost of living, a trustee must be prepared to take the risk that at some future date economic conditions of the country may take a turn for the worse and materially reduce principal values and dividend returns.

Now what general conclusions can be drawn from all of this? It seems to me they can be summarized as follows:

(1) That for nearly 18 years we have been in a period of monetary inflation which has resulted in the purchasing power of the dollar being reduced.

(2) That for those 18 years we have seen drastic upward revisions in personal income taxes and will probably see still further decreases in the future.

(3) That the rule of prudence is an intangible yardstick and the trustee must, therefore, proceed on a much more conservative

basis than the prudent man investing his own funds.

(4) That because of the increase in taxes and in the cost of living a trustee will be under constant pressure to hold in discretionary accounts larger percentages of common stocks.

(5) That a trustee will undoubtedly use a combination of fixed income securities and common stocks. In this connection it seems logical that the fixed income section should be confined to high grade securities with fairly short maturities.

(6) That a trustee will have difficulty in deciding the proportion of stocks to hold in an account; in the selection of those stocks and in the timing of their purchase. These same difficulties will be experienced by every individual in investing his own funds.

(7) That the record indicates the corporate trustee has done a sound and conservative job in the investment of trust funds over the past 20 years. The criticism which he has received is, in my opinion, to a large extent unjustified, and is merely a reflection of the after effects of a great war improperly financed and of a condition created by the Administration in Washington in an endeavor to build up a political welfare state. A government program of inflation is difficult to control. The result is usually to wipe out the savings of the upper and middle classes and eventually to reduce the standard of living of all the people in the country.

(8) That the trustee recognize his problem and face it courageously, but with the knowledge that he will be hard put to maintain the purchasing power of either the principal or income of a trust, even though he uses a large percentage of the funds in the purchase of common stocks.

LIST OF SELECTED STOCKS

Air Reduction Co., Inc.
Allegheny-Ludlum Steel
Allis-Chalmers Mfg. Co.
American Can Company
American Radiator and Standard Sanitary
American Steel Foundries
American Tel. & Tel. Co.
American Tobacco Company
Anaconda Copper Mining Co.
Brooklyn Union Gas
Canadian Pacific Railway
Chesapeake & Ohio Rwy.
C. I. T. Financial Corp.
Congoleum-Nairn Corp.
Consolidated Edison Company
Continental Can Co.
Corn Products Refining Co.
Endicott Johnson Corp.
General Electric Company
Great Northern Rwy. preferred
International Nickel Co.
Johns-Manville Corp.
P. Lorillard Company
R. H. Macy & Co., Inc.
Norfolk & Western Rwy.
Owens-Illinois Glass Co.
Pacific Gas & Electric Co.
Parke, Davis & Company
Pennsylvania Railroad Co.
Pullman, Incorporated
Reynolds Tobacco "B"
Southern California Edison
Standard Brands, Inc.
Sterling Drug, Inc.
Timken Roller Bearing Co.
Woolworth Co.
Yale & Towne Mfg. Co.

Newlin Davis Gov. of Phila. Secs. Assn.

PHILADELPHIA, Pa.—Newlin F. Davis, Kidder, Peabody & Co., President of The Philadelphia Securities Association, has announced that James Mickley of Corn Exchange Bank & Trust Co. has been elected a Governor of the Association to fill the unexpired term of Dudley R. Atherton, Jr., resigned.

Implications of 2nd Anglo-Russian Trade Agreement

By PAUL EINZIG

Dr. Einzig, in calling attention to the second Anglo-Russian trade agreement, whereby Russia is enabled to buy strategic raw materials of Sterling Area, says, though it is objectional from political viewpoint, it is an aid in building up Britain's gold reserve and thus helps rearmament.

LONDON, Eng.—Another agreement has just been concluded between Britain and Soviet Russia, providing for the purchase of 800,000 tons of coarse grain. The agreement is on lines similar to those of the agreement concluded earlier this year, under which 1,000,000 tons of coarse grain and 150,000 standards of timber have been imported from Russia and the satellite states. Payment is not in specific goods but in sterling which can be spent in any part of the sterling area and in a number of countries outside the sterling area. While the trade agreement of December, 1947, contained a schedule in which the goods to be imported by Russia were specified, under the present agreement Russia is at liberty to buy any goods, provided that there is no embargo on their export in general or on their export to Russia and the satellites in particular. The agreement contains no undertaking on the part of the British Government not to impose additional embargoes on goods which can at present be exported freely.

Dr. Paul Einzig

It seems highly probable that practically the entire proceeds of the Russian coarse grain deliveries will be spent on the purchase of raw materials in the sterling area, especially Malayan rubber and tin and Australian wool. It is also expected that when the delivery of the timber sold under the earlier agreement is completed a further large purchase will be arranged, the proceeds of which will further increase Russia's capacity to buy strategic raw materials from the [redacted] Commonwealth. This aspect of the transactions, and its possible repercussion on American opinion, is causing much concern in London, but since the problem involved has been discussed over and over again, very little could be said about it that could be new.

There is, however, another aspect of the import of Russian goods which has been raised lately. It has been suggested that the Soviet Government has been using its sterling resources to engineer deliberately an increase in the prices of raw material, in order to provoke an increase in the cost of living in the democratic countries. That the Moscow statesmen are quite capable of adopting such Machiavellian policy is beyond doubt. The question is whether it is worth their while to raise the prices of materials which Russia has to import. To some extent the urgent Russian purchases are bound to produce an effect on prices which is out of proportion to the relative quantities involved. The question is whether the Russian buying agents deliberately exaggerate the effect of their purchases. No private buyers would do such thing, but it is quite conceivable that the Soviet Government is willing to incur financial losses by paying higher prices than necessary, for the sake of political advantages it hopes to gain at the cost of such comparatively moderate sacrifices.

Those who are inclined to take the view that this is in fact what is happening appear to take a too one-sided view of the effect of rising raw material prices. Beyond doubt, the all-round increase of the cost of living in democratic countries tends to cause discontent and to aggravate the economic problems of rearmament. That is, however, only one side of the picture. The other side is the improvement of the balance of payments of the sterling area, leading to an improvement of the British dollar position. Beyond doubt, it has been the rise in the prices of sterling area raw materials more than any other factor that has caused the sudden increase of the British gold reserves. Had it not been for this increase, Britain would now be in a much less satisfactory position to face the strain of rearmament on her balance of payments. From this point of view, therefore, any Russian Machiavellian tactics tended to help rather than hinder.

It is of course difficult to say how far the disadvantages of the rising cost of living are offset by the advantages of an increasing gold reserve. From this point of view an argument put forward during a recent debate in the House of Commons, and endorsed by Mr. Dalton on behalf of the government, is well worth our attention. A Socialist speaker pointed out that the standard of living is much more important than the cost of living. In other words, if an increase of the standard of living can only be achieved through an increase of the cost of living then it is well worth our while to put up with the latter for the sake of the former. Thanks to the increase of the gold reserve it may be possible to proceed with rearmament without substantial reduction in the standard of living. There can be little doubt that a reduction in the standard of living would cause much more discontent than an increase in the cost of living. What is more important, while high cost of living hits mainly the "defenseless" classes of those living on small fixed incomes, a decline in the standard of living would hit the industrial workers whose discontent would cause much more trouble than that of people with fixed incomes.

This does not mean of course that the Soviet Government is entitled to a vote of thanks for the services rendered to Britain by contributing towards the rise in prices of Sterling Area products. But there are obviously factors on both sides, and the rise has not been an unmitigated evil. Moreover, since Britain was unable to buy coarse grain elsewhere her livestock would have had to be reduced considerably in the absence of the import of Russian grain, and her housing program might have suffered in the absence of Russian timber imports. The question whether the strategic value of Sterling Area wool, tin and rubber to Russia is bigger or smaller than the strategic value of Russian coarse grain and timber to Britain is difficult to answer. The ideal solution would be of course if it were possible for Britain to cover her grain and timber requirements without having to give Russia strategic materials in exchange. Perhaps closer cooperation among the Democratic countries might be able to lead to that solution.

America's Socialist Trend Waning: Rukeyser

Economic columnist maintains election results confirm conclusion that business and employment boom is extinguishing public's interest in planned economy schemes.

The international aggressions of Communism and the domestic boom in business and employment have dimmed American public interest in "planned economy" and statist schemes.

Merryle S. Rukeyser

This view was expressed by Merryle Stanley Rukeyser, of New York, nationally syndicated economic columnist for International News Service and editorial writer for the Hearst newspapers, in an address as banquet speaker at the annual meeting of the Pennsylvania State Chamber of Commerce, at Harrisburg, on Nov. 17.

"The American enterprise system," Mr. Rukeyser, who is author of "Financial Security in a Changing World" and various other books, "has had a rebirth of public confidence. This was exemplified in the recent election in the growing strength of Republicans and Jeffersonian Democrats who are unabashed advocates of the American competitive system. Certainly the voting trend in Ohio, Indiana, Iowa, Michigan, California, New York and elsewhere turned thumbs down on emulation of European fringe political blocs and government by articulate pressure groups, such as the CIO-PAC.

"Under the pressure of challenging events, the instinctive common sense of the people reasserted itself in a recognition of the fact that the final sanction for a bold American foreign policy lies in the unparalleled productivity of the American people. In the circumstances, business baiting and sneering at the profit system are recognized as either conscious or unwitting attacks on the sources of national strength, on which the survival of the Republic and of the whole free world depends.

"Thus, the new 82nd Congress has a mandate for common sense, common honesty and national solvency. The election returns warrant bipartisan support of the proposal by the Joint Committee on Nonessential Federal Expenditures, of which Senator Harry F. Byrd, Virginia Democrat, is Chairman, to make room for accelerated military expenditures through eliminating or reducing nonessential, nonmilitary Federal appropriations. Similarly the balloting justifies a scientific revision of the tax structure, and a rejection of demagogic tax prejudices, including the pressure group clamor for an excess profits tax.

"The new mood of the public in opposition to Federal 'giveaway' schemes and subsidies merits a reexamination of the long-term trend toward statism, with the concentration of power at the nation's capital. In view of the unavoidably heavy costs, growing out of the Korean war and international tension, a reversal of the Socialistic trend is indicated. In order to give relief to the overburdened Federal budget, Uncle Sam should turn back to the states and localities and to private enterprise and investment all of those activities which they are able, ready and willing to carry on, including medical care, the distribution of electric current, and banking functions."

The rebuke to pressure for class legislation and for putting the government further into business puts new underpinnings of confidence under the American system, Mr. Rukeyser declared. Recent developments, he added, increase the opportunity for riding current challenges at home and abroad without ruinous inflation, on the one hand, or police state regimentation, on the other.

"Much potential good," Mr. Rukeyser concluded, "is inherent in the new intellectual fashions in public taste. It now appears to be good practical politics for a public official to be himself, and to show courage in sticking to his honest convictions. The seriousness of the times has heightened popular demand for genuine statesmanship, high competency and honest devotion to constitutional principles among public servants. The current dominant public mood seems to be unsympathetic toward political blue sky, money manipulation, and the whole demagogic crusade against excellence. The people are becoming increasingly appreciative of the management philosophy, which is compounded of know-how, foresight, and a sense of objectivity and realism."

Griswold Elected by Fidelity Deposit

BALTIMORE, Maryland—Benjamin H. Griswold, III, partner, Alex. Brown & Sons, yesterday was elected to the executive committee of the board of directors of the Fidelity and Deposit Company of Maryland. In announcing the board's action, President B. H. Mercer stated that Mr. Griswold also had been elected a director and member of the executive committee of the American Bonding Company of Baltimore, F. & D. subsidiary. He has been a director of the parent company since January, 1948.

Other directorships held by Mr. Griswold include Sharp & Dohme, Inc., Philadelphia; Baltimore Life Insurance Company, Central Savings Bank of Baltimore and Maryland Jockey Club. He is a Governor and immediate past President of the Association of Stock Exchange Firms. Long active in Baltimore civic affairs, he is at present serving as Treasurer of the Commission on Governmental Efficiency and Economy. He also is a trustee of Gilman Country School for Boys, James Lawrence Kernan Hospital and Industrial School for Crippled Children and Union Memorial Hospital, all of Baltimore.

Mr. Griswold has been a partner in Alex. Brown & Sons since 1935 and with his brother is the sixth generation of his family to control that firm, said to be the oldest name in the investment banking business in the country.

Joins E. E. Mathews

(Special to The Financial Chronicle)

BOSTON, Mass. — Richard G. Kaufman has become affiliated with Edward E. Mathews Co., 53 State Street.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

N. Baxter Jackson, Chairman of **Chemical Bank & Trust Company** was host on Nov. 21, at the Quarter Century Club of the bank held in the Sert Room of the Waldorf-Astoria. The Club has a membership of 230 of which 178 are actively employed and 52 have retired. At an election which preceded the meeting, Joseph Mazzola succeeded Ralph G. Peterson as President of the Club.

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The Board of Trustees of **Central Hanover Bank and Trust Company of New York** has recommended for purposes of simplification the shortening of our corporate title to **The Hanover Bank.** Subject to the approval of stockholders on Jan. 17 the short title will become effective during 1951. No change is involved in the bank's operations, or in its banking or trust services.

The Trustees of the bank on Nov. 21 declared the regular quarterly dividend of $1.00 per share payable Jan. 2, next to stockholders of record Dec. 11, and in addition the board declared a stock dividend of one share of capital stock for each seven held, payable Feb. 15, to stockholders of record Jan. 22. This dividend, which is subject to approval by stockholders at the annual meeting on Jan. 17, will increase the number of outstanding shares from 1,050,000 to 1,200,000, and the bank's capital from $21,000,000 to $24,000,000. The bank anticipates continuing the annual dividend of $4.00 per share on the enlarged capitalization.

The name "Hanover" was adopted 100 years ago when the Hanover Bank was organized by a group of businessmen meeting at India House, Hanover Square, New York. The Hanover absorbed in turn the Continental National Bank, the Gallatin National Bank and the Greenwich Bank. The earliest of these to open for business was the Greenwich Bank, which began operations in 1831. Central Trust, Union Trust and The Plaza Bank—through a series of mergers — become Central Union Trust Company, which merged with the Hanover to form Central Hanover Bank and Trust Company. The charter under which the bank operates was granted to the Central Trust Company in 1873 and all banking and trust operations will be continued by The Hanover Bank under this charter.

Frank A. Christensen, President of all of the companies of the America Fore Insurance Group, was elected a Trustee of **Central Hanover Bank and Trust Company** at the regular meeting of the Trustees this week. He fills the vacancy created by the resignation of Bernard Culver, who had served as a Trustee since 1939.

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Robert T. Stevens, Chairman of the Board of the **Federal Reserve Bank of New York** announced on Nov. 17 that Burr P. Cleveland, President of the First National Bank of Cortland, at Cortland, N. Y., has been elected by member banks in Group 2 as a class A director of the Reserve Bank; and Marion B. Folsom, Treasurer and Director of the Eastman Kodak Company, Rochester, N. Y., has been reelected by member banks in Group 2 as a class B director of the Reserve Bank. Each was chosen for a term of three years beginning Jan. 1, next. Mr. Cleveland succeeds Frederic E. Worden as class A director, whose term expires Dec. 31.

Lawrence C. Marshall, President of the **Bank of the Manhattan Company, of New York** announced on Nov. 20 that on Jan. 1, Lester R. Mahoney, Vice-President, will take charge of the Queens Division of the bank which comprises 33 of the bank's 55 offices in New York City. Mr. Mahoney will succeed Ernest S. Macdonald who will retire April 30, next after 23 years of service with the bank. Mr. Macdonald, however, will continue to serve as a member of the Queens Committee.

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Irwin S. Block and Franklin H. Middleton, formerly Assistant Secretaries of **Manufacturers Trust Company of New York,** at its 57th Street office at 5th Avenue, have been appointed Assistant Vice-Presidents of the company, Henry C. Von Elm, President, announces. The announcement also stated that David J. Barry, of the security analysis department, and James C. Finnan, of the foreign department, have been appointed Assistant Secretaries of the company; and Thomas J. Flynn and Donald F. Hall have been appointed Assistant Managers, respectively, of the company's Columbus Circle and 57th Street offices. Following several years in the investment banking fields, Mr. Block joined the staff of Manufacturers Trust in 1935; he was appointed an Assistent Secretary of the company in 1943. Mr. Middleton, after several years with another banking institution, was first employed by Manufacturers Trust in December, 1935; he was appointed an Assistant Secretary in October, 1943.

Mr. Finnan has been with Manufacturers Trust since November, 1941; since September, 1948, he has been in charge of the Accounting Division of the Foreign Department. Mr. Barry, first employed by Manufacturers Trust as an office messenger in October, 1936, became a junior security analyst in 1940, and for the last several years has been a senior security analyst.

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What is termed the most valuable business shipment in this country's history was completed on Nov. 20 when $5,000,000,000 of securities were moved by the **Chemical Bank & Trust Co. of New York** from 165 Broadway to its office at 30 Broad Street. The securities represented not only the investments of this 126-year-old bank, but holdings in its custodian, customers' securities, personal trust and bond departments. The 300 employees of these departments and of the tabulating and investment analysis divisions, have been transferred to 30 Broad Street in a move to improve the efficiency of the bank's securities business and to gain greater convenience for customers. N. Baxter Jackson, Chairman of the board of the bank, said: "This move will bring to the heart of the financial district those departments of the bank which have most to do with the securities business."

The operation, it is stated, took five months to plan; the packing phase of the job actually started at the close of business Nov. 16, and all details of the move were completed in time for the start of business on Nov. 20. It is noted that the move of the six departments of the bank from 165 Broadway will not disturb the banking operations already located at 30 Broad Street. Among the officers moving to 30 Broad as a result of the shift are the following Vice-Presidents: W. Barton Cummings and Hugh Weir of personal trust; William H. French of customers' securities; Alfred H. Hauser, of investment; and William G. Laemmel, Charles S. Parker, Jr., and Emil C. Williams, of the bond department.

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Guaranty Trust Company of New York announces the appointment of Stephen Valentine, Jr., as an Assistant Treasurer in the public utilities division.

* * *

Frederick C. Vogt, a trustee of the **North Side Savings Bank of New York,** died Nov. 12. Mr. Vogt was Chairman of the board of Vogt's Ice Cream, Inc. Mr. Vogt began as a salesman for the Reid Ice Cream Co. and subsequently was a salesman for the Fisher Fountain Co. He founded his own concern 20 years ago. Mr. Vogt also was a director of the Colonial Life Insurance Co. of New York and a past Governor of the Bronx Board of Trade.

* * *

A surprise dinner party was tendered to Joseph E. Schwab, Vice-President and Comptroller of the **Roosevelt Savings Bank of Brooklyn, N. Y.** by his fellow officers and friends at the Montauk Club, on Nov. 15. In recognition of his 30 years' service, an appropriate gift was presented to Mr. Schwab.

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It was announced on Nov. 17 that the **New Rochelle Trust Co. of New Rochelle, N. Y.,** has placed with The Mutual Life Insurance Co. of New York $500,000 of 10-year debentures due in 1960. Proceeds of the loan, together with $200,000 raised by the sale of common stock, it is stated, are being used to retire all the preferred stock of New Rochelle Trust held by the Reconstruction Finance Corporation. It is added that in the past five years the bank has paid off $450,000 of $1,250,000 advanced by the R. F. C. and has, in the same period, increased its capital funds by $360,000 to a total of $2,047,000 as of Aug. 31, 1950. It is further stated that the trust company, in business since 1888, had assets of more than $25,000,000 and deposits of $22,651,000 as of Nov. 15.

* * *

Special meetings of the stockholders of the **Franklin National Bank of Franklin Square, Nassau County, N. Y.,** and the **South Shore Trust Co. of Rockville Centre, N. Y.,** have been called for Dec. 11 by Arthur T. Roth and Frank W. Breitbach, Presidents of their respective institutions, for the purpose of acting on an agreement to consolidate the two institutions under the name and charter of the Franklin National Bank. The consolidation agreement, unanimously approved by the directors of both banks, is subject to the approval of the stockholders and the Comptroller of the Currency in Washington. It is announced that the consolidation will be effected by an exchange of 1⅓ shares of Franklin National Bank stock ($10 par value) for each share of the South Shore Trust Co. stock, $20 par. Several of the larger stockholders of the South Shore Trust, it is announced, are desirous of receiving cash for their stock in lieu of shares of stock of the Franklin National Bank; to this end, these holders have agreed to sell to a group of underwriters the Franklin National Bank stock which would be available to them under the terms of the consolidation. The underwriting group is composed of Blair, Rollins & Co., W. C. Langley & Co., Grimm & Co., and Hornblower & Weeks, all of New York, and Hallowell Sulzberger & Co. and Boenning & Co. of Philadelphia.

Mr. Roth states that "under the consolidation agreement Mrs. George W. Loft, principal stockholder of the South Shore Trust Co., has agreed to serve as a director and Frank W. Breitbach, President, will become a director and Vice-President in charge of the South Shore office. Mr. Douglas Frisby will be the Auditor of the combined banks. All other active officers will continue in their present capacities." Chartered in 1926 as the Franklin Square National, the bank changed its name to the Franklin National Bank in 1949. The South Shore Trust Co. was founded in 1929 by the late George W. Loft. As of Oct. 1, 1950, it reported capital funds of $1,500,000 and deposits of approximately $17,000,000. The Franklin Square National on the same date had capital funds of $3,500,000 and deposits of $50,200,000. The South Shore Trust Co. will be operated as the South Shore office of the Franklin National Bank.

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A change in the name of the **Mariner Harbor National Bank of Port Richmond, N. Y.,** to the **Richmond County National Bank of Port Richmond** became effective Oct. 16, it is learned from a recent bulletin of the Comptroller of the Currency.

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Thomas H. Hawks has been elected President of the **Rochester Savings Bank of Rochester, N. Y.,** succeeding Edwin Allen Stebbins who has been chosen to the newly created post of Chairman of the board. Both, according to the Rochester "Times-Union" of November, will assume their new positions on Feb. 15. Mr. Hawks, who is 34 years of age, has been a trustee of the bank since August, 1949. He is Treasurer of the Wollensak Optical Co. His father, George H. Hawks, was President of the Rochester Trust & Safe Deposit Co., now merged into the Lincoln Rochester Trust Co., and his grandfather, Thomas, was associated with the Rochester Savings from 1879 to 1909. Mr. Stebbins was associated with the old German-American Bank from 1902 until 1904. He then entered other fields of business. In 1923 he was elected a trustee of the savings bank, and re-entered active banking as Vice-President the following year. He has been President of the bank since 1927.

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On Nov. 2, the **Fort Edward National Bank, of Fort Edward, N. Y.,** was placed in voluntary liquidation, having been absorbed on Nov. 1 by the **Glens Falls National Bank & Trust Co. of Glens Falls, N. Y.** The Fort Edward institution had a capital of $75,000. A month ago, Oct. 20, the Glens Falls National Bank & Trust Co. increased its capital stock from $450,000 to $510,000 through the sale of $60,000 of new stock.

* * *

At a special meeting of the shareholders of the **Second National Bank of Cumberland, Md.,** on Nov. 28, the directors and management will recommend an increase in the authorized capital from 11,000 to 16,000 shares of $25 par value each or from $275,000 to $400,000. The Comptroller of the Currency has already approved this step; if ratified by the shareholders, a stock dividend in the ratio of 5 new shares for each 11 shares now held will be paid to stockholders of record at the close of business on Nov. 29. President Joseph M. Naughton states that it is the present intention of the directors to continue the current dividend rate of $2 per annum on the larger number of shares.

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The stockholders of **The Bank of Virginia, at Richmond, Va** are to hold a special meeting on Nov. 27 to consider a charter amendment to permit an increase in the bank's capital stock from $1,800,000 to $2,000,000. This increase would be effected by a stock dividend in the form of 10,000 additional shares to be issued to present stockholders in the ratio of one new share for each nine shares presently held. This increase in the capital of the bank to $2,000,000 would make it equal to the present surplus of $2,000,000. The surplus was increased to this figure from $1,800,000 in April, 1950. The stock dividend of $200,000 and the addition to surplus of $200,000 both have been made available from the earnings of the bank in the year 1950, in addition to the distribution of the usual cash dividend. The directors have approved the proposed charter amendment and, if adopted, the stock dividend will be declared at the board meeting on Dec. 8. The new shares would be issued on Dec. 29 to stockholders of record Dec. 18. The capital, surplus, and undivided profits of the bank, after the declaration of the stock dividend, would approximate $4,400,000, exclusive of $2,512,000 of reserves. The total resources of the bank now stand at $72,100,000.

* * *

A stock dividend of $250,000 served to increase the capital of the **First National Bank of Appleton, Wis.,** on Oct. 11, from $500,000 to $750,000.

* * *

Effective Nov. 1, the **Merchants National Bank of Topeka, Kans.,** increased its capital from $500,000 to $750,000 by a stock dividend of $250,000.

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As a result of the sale of $25,000 of new stock, the capital of the **Gulf National Bank of Gulfport, Miss.,** was increased, effective Oct. 11, from $100,000 to $125,000.

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The directors of **The First National Bank of Fort Worth at Fort Worth, Texas** announce the election of J. Stuart Lydick as Vice-President effective Jan. 1.

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The election of A. D. Jennings to Assistant Vice-President of **California Bank, of Los Angeles,** and R. W. Franson and John J. Murray to Assistant Cashiers, was announced Nov. 13 by Frank L. King, President. The directors of the bank have authorized the issuance of 100,000 shares of common stock at $40 per share offered through rights to shareholders of record Nov. 15 on the basis of one-third share for each share held. With the issue of the new shares, the bank will have outstanding all of the 400,000 shares authorized. From the $4,000,000 realized through the sale of the stock, $2,500,000 par value of the new shares will increase the bank's capital stock from $7,500,000 to $10,000,000. The remaining $1,500,000 together with $1,000,000 transferred from undivided profits, will be added to surplus, bringing that figure to $10,000,000. With undivided profits of more than $5,000,000 the bank's aggregate total of capital funds will then exceed $25,000,000. Fractional shares will not be issued but both fractional and wholesale warrants may be bought or sold from Nov. 15, date of issue of the warrants, until Dec. 15, the expiration date. Blyth & Co., Inc., head a syndicate of investment houses who have underwritten the unsubscribed stock.

With Proctor, Cook

(Special to The Financial Chronicle)

BOSTON, Mass. — Gordon M. Benedict has become connected with Proctor, Cook & Co., 35 Congress Street, members of the New York and Boston Stock Exchanges.

With Paine, Webber Co.

(Special to The Financial Chronicle)

BOSTON, Mass. — Robert H. Traylor is now with Paine, Webber, Jackson & Curtis, 24 Federal Street.

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Snyder Explains Excess Profits Tax Proposals

vantage over competing concerns whose capital had not been impaired. This discrimination, often resting on accidental circumstances, might seriously affect new corporations attempting to compete with those receiving such a tax advantage.

It is possible to remove this discrimination and yet give proper recognition to temporary losses of capital by limiting the allowance to capital impairment attributable to recent years.

New Capital

Under the World War II tax, corporations using the invested capital method were allowed a credit for new equity capital, which was 25% larger than the credit allowed on old capital. Corporations using the average base period earnings credit were allowed a flat 8% on new capital. Increases in equity capital arising from the reinvestment of earnings were granted under the invested capital credit but not under the earnings credit.

The provisions of the World War II law are in need of revision. Otherwise most corporations, which will use the base period earnings credit, would obtain no allowance for the reinvestment of earnings. Such reinvestments have been at record levels in recent years. Wide discrepancies would result if this allowance depended upon the fortuitous shift of corporations from the earnings credit to the invested capital credit. The staff has assembled for your information data you will want to consider in the alignment of these credits. I would prefer to see recognition given to retained earnings in determining both the earnings and invested capital credits.

Minimum Credit in Lieu of Specific Exemption

Experience suggests that it is desirable to limit the aplication of the type of profits tax under consideration to taxpayers with significant defense profits.

The World War II excess profits tax provided a $10,000 specific exemption for this purpose. Several advantages would be gained by replacing the specific exemption with a minimum credit and increasing the amount to $25,000.

Whereas a specific exemption is granted to all corporations, a minimum credit would apply only to those corporations with actual credits below the minimum. For example, under the specific exemption a corporation would not be subject to excess profits tax until its earnings exceeded its credit by $10,000. Under a minimum credit of $25,000 no corporation would be taxable unless its net income exceeded $25,000.

A minimum credit concentrates relief in the lower net income brackets, since it can be utilized only by those firms whose computed credits are less than $25,000. Thus, a $25,000 minimum credit would provide a larger favorable area for small and new businesses and the auditing of tax returns for these corporations would be greatly simplified. Moreover, the use of a minimum credit would also reduce substantially the number of claims for relief by small corporations. Such cases accounted for approximately a quarter or 13,000 of the 54,000 relief claims filed under the World War II tax, and for an even greater proportion of the litigation under the World War II relief provisions. The elimination of this administrative burden would be highly desirable.

Relief Provisions

The generally prosperous condition of the country during the past five years, and the type of revisions outlined here would enable taxpayers generally to establish a fair and reasonable base for the measurement of defense profits. Although the need for relief would be greatly reduced, abnormal cases would remain. Equitable treatment in these cases is one of the most troublesome problems encountered in the administration of a defense or exess profits tax.

General tax provisions must necessarily be drafted with the typical firm in mind. Whether primary use is made of an earnings standard or of an invested capital standard, cases will arise where the tax might occasion serious hardship in the absence of relief.

Although an earnings standard takes into account both differences in risk and differences in operating efficiency as reflected in past earnings, it is inadequate for the new or rapidly growing firm whose profit potentialities have not yet been demonstrated. A similar problem arises where base period earnings have been adversely affected by some abnormal or unusual occurrence beyond the taxpayer's control.

The general relief provisions of World War II specified in considerable detail the circumstances under which taxpayers would be entitled to relief. The law encouraged the filing of about 54,000 claims for relief and was difficult to administer. The corporation seeking relief became the rule rather than the exception.

In relief provisions should be revised to avoid extremes. The objective should be to provide a fair measure of relief which lends itself to reasonable administrative determination. New and growing firms confronted by risks which require a higher rate of return on invested capital than that allowed by the main provisions of the statute merit special attention. The records of the Bureau of Internal Revenue and the Excess Profits Tax Council provide guidance for the formulation of an appropriate general relief provision. The staff has assembled extensive materials on this subject for your consideration.

Tax Rate

The type of defense tax I have described must produce adequate revenue without involving very high marginal rates and without penalizing unduly corporations not sharing in the high level of profits. Excessively high rates tend to increase inflationary pressures because they induce waste and inefficiency.

In a situation short of total war and in the absence of comprehensive economic controls, it is necessary to retain the economic incentives of our private enterprise economy. Nonetheless, a properly designed profits tax is essential for a balanced anti-inflation program since economic controls and higher taxes on individuals would be unfair unless high corporate profits carry their fair share of the tax load.

I believe you will agree that there would be little advantage, if any, in adopting this new tax if its rates were only a few percentage points higher than those of the regular corporation income tax. Such a tax would impose additional burdens by way of taxpayers' compliance and tax administration which would be warranted only if it produced significant amounts of revenue. At the same time, however, it is also desirable to avoid rates as high as the 85½% rate employed in the last wartime tax. If under present conditions and in the absence of wartime production motivation corporations were allowed to retain only a small part of any additional income they earn, they may not be left with sufficient incentive to maximize production. Under the present circumstances a rate of around 75% appears to be reasonable. This would mean a differential tax of 30% over the regular 45% corporation normal and surtax.

The World War II excess profits tax started with graduated rates. In 1942, however, graduation was eliminated and a flat over-all rate on all excess profits was substituted. It is our tentative conclusion that under present conditions graduation would not be necessary. It would tend to increase the top marginal rate, if the revenue objective is to be obtained, and is therefore likely to have less desirable incentive effects than a flat rate.

To achieve the President's revenue objective with a tax of the type I have described, and with a 75% tax rate, it would be necessary to reduce base period earnings by 25% for purposes of computing the credit. This cutback of the base period to 75% may be justified on grounds similar to those which underlay the cutback to 95% in the World War II tax. It was the view of Congress then that firms in a position to use an earnings credit would, in effect, obtain an allowance equal to very high rates of return on their invested capital and would thus enjoy a big advantage over those restricted to the invested capital base. This advantage is even greater now than it was under the old law. The fact that some defense profits pre-dated Korea also supports some reduction in the credit based on pre-1950 earnings.

It must be recognized that if the base period earnings credit is reduced, this tax will apply to some firms whose current profits are no higher than the average of their best three base-period years. For these firms the tax increase resulting from the 25% reduction in the credit will be equivalent to a 7½ percentage point increase in the corporate rate. However, the over-all distribution of tax burdens under this profits tax will differ from an equal general corporate income tax rate increase. Firms whose earnings had declined below 75% of the three-year average would pay none of the increase. Firms with earnings between 75 and 100% of this average would pay only a small portion of a flat increase. Finally, firms whose earnings had actually increased over this average would pay more than 7½% additional tax on their entire income, depending on how much their profits increased.

I am limiting my comments to the more general features of the tax under consideration. The suggestions I have made for revision in the World War II tax, if that approach is adopted, are limited to the essentials underlying the concept of the tax. Since time during this session is short, you will doubtless want to confine this year's legislation to basic essentials, deferring consideration of provisions having more restricted application to next year.

Marshall Morse With Stein Bros. & Boyce

Marshall S. Morse, formerly with Lehman Brothers and more recently with American Securities Corp., is now associated with Stein Bros. & Boyce as Manager of their municipal department in the New York office, 14 Wall Street.

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Let's Have a Stiff Defense Tax Instead of Excess Profits Levy

than $3 billion. We believe that it would be extremely undesirable to impose further retroactive taxation on 1950 profits at this time and that the budget situation does not justify such retroactivity.

Suggested Requirements

I may sum up the requirements that should be met by a corporate profits tax plan as follows:

(1) It should avoid as far as possible very high marginal rates that will retard economic progress and weaken America.

(2) It should comply as well as possible with your instructions to draft a tax on profits attributable to the defense effort, while recognizing that such profits are spread through the economy and cannot be isolated by statutory formulas.

(3) It should be simple, so it can be agreed upon and enacted quickly.

(4) It should raise the added revenue needed from 1951 profits, which may be as much as $3 billion.

After considering many possibilities we came to the following proposal as best meeting these tests: Establish the basic rate of corporate profits tax at 38% on profits in excess of $25,000 and 18% on the first $25,000. This 38% was the basic rate in effect in 1946-49. Add to that a Defense Profits Tax at an equal rate on all corporations. If as much as $3 billion is needed from this source the rate of Defense Profits Tax should be 15%, giving a combined rate of 53%. I should note at this point that six members of our Committee dissented from this recommendation and said that the combined rates should not exceed 50% except in all-out war.

I wish to call to your attention two facts about the rate we suggest. First, the combined tax rate our Committee suggests would take as high a share of corporate income as was taken even during the war years. In the war years 1942 to 1945 inclusive, total corporate taxes—normal, surtax and excess profits taxes—were 52.5% of corporate income. Our suggestion would give a combined tax rate of 53%.

Second, if we control inflation as we can and should, total profits after tax in 1951, under our proposal, would be almost exactly equal to profits after tax in 1947-49. Thus there would be no increase in total profits after tax either because of or during the 1951 defense program.

We believe that Congress should and can enact in the present session not only a Defense Profits Tax but also a Defense Income Tax at a flat rate on income above the present exemption and tax. A description of the Defense Income Tax is contained in our policy statement.

Both the Defense Profits Tax and Defense Income Tax should be enacted now for one year only to assure further study and improvement. Also we recommend further study of excises looking to an increase in their yield later in 1951. We believe that Congress can act quickly and decisively if it will do two things:

First, make use of simple and well-established methods of taxation.

Second, base its action on the urgent objectives about which there is common agreement — to strengthen America and to fight inflation.

As Americans, as parents of America's fighting men, we ask only this of the Committee and the Congress. We want you to measure any tax by the standard of its effect upon the strength and security of America. Is this the tax that will contribute most and subtract least from the industrial power that underlies our national power? If our sons and daughters have to fight, next year, five years from now, ten years from now, is this the tax that will do most to provide them with ample, modern equipment? If our sons and daughters must fight, will this tax help build them an America to which they can return and work productively and live as we want them to live? When you have answered these questions "Yes" you will have the tax you should enact.

Goodbody 25-Yr. Club Admits New Members

Seven new members were admitted Nov. 16 into the Twenty-Five Year Club of Goodbody & Co., 115 Broadway, New York City, members of the country's principal stock and commodity exchanges. The ceremonies took place at a dinner in the Manhattan Room of the New York Athletic Club. Each new member was presented with a sterling silver serving tray on which was inscribed his name, the name of the firm, date of employment and date of presentation. Marcus Goodbody, senior partner of the firm, is also senior member of the club, having become associated with the firm 53 years ago. The membership now totals 26.

Marcus Goodbody

Walter Hintz With Stone & Webster

CHICAGO, Ill.—Stone & Webster Securities Corp., 33 South Clark Street, announce that Walter A. Hintz is now associated with them in charge of the municipal department of their Chicago office. Mr. Hintz was formerly associated with McDougal and Condon, Inc., as Vice-President and Secretary.

Shuman, Agnew Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Raymond J. Doyle, Jr. and Max D. Stewart are now with Shuman, Agnew & Co., 155 Sansome Street, members of the New York and San Francisco Stock Exchanges.

Joins Schirmer, Atherton

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Heronin J. Rybicki has been added to the staff of Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges.

Bradley Higbie Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Edgar L. Jacques has been added to the staff of Bradley Higbie & Co., Guardian Building, members of the Detroit Stock Exchange.

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What's Ahead?—Long- and Short-Term Prospects

cent article on "U. S. Military Policy: 1950," he said:

"The conduct of foreign affairs is a civilian responsibility. Military policy in our democratic America must always remain the servant of national aims. But today, amid new global dangers, neither the diplomat nor the soldier alone can lead the American people to wise international action. Both voices must be heard if the course pursued is to be realistic and effective. The soldier can see strategic perils that the civilian might readily overlook. The soldier must not direct the civilian policy, but the civilian must never overcommit the soldier. We must never have a foreign policy that sends our armed forces to world tasks beyond their capabilities."

I suspect that Secretary Acheson would fully endorse this statement. So, too, would Secretary Marshall, who has had both military and diplomatic responsibilities. So would you and I—as far as it goes. But it needs to be completed with these sentences: Neither should the military and foreign relations services, either jointly or separately, overcommit the nation's industrial system. Nor should our foreign policy, our military effort, or our industrial undertakings overcommit our financial resources or jeopardize the solvency of our monetary system.

A sound and practical economic objective needs to be weighed with technical competence and with most outspoken frankness against the definition of military necessity (and the diplomatic strategy back of it) which the American people adopt during the next few months. We cannot simply plunge into a military commitment that makes us feel secure or that the military expert says would make us safe against any foreseeable contingency, and then let our economy and our financial system take the impact of that military program as best they may. National security rests on the dollar, the government bond, and the price index just as much as it does on the tank, the atom bomb and the radar net.

Two Years to a Breakdown?

Having sketched briefly what seem to me the most sound or ideal conditions that we should strive for over a ten-year period, I turn to the less reassuring, indeed alarming, prospect of what may take place during the next two years. If, instead of skillfully and conscientiously working out an integrated diplomatic, military, industrial, financial and social program of steady power for the decade, we try to mount the maximum military strength to meet the Kremlin on the field of battle by 1952 or 1953, this would mean manpower drain, materials shortage, credit strain and fiscal deficits all piled on top of an economy already at full strain as a result of the inflationary prosperity that we have been parlaying along ever since World War II.

Of course some switch from civilian to military activity will be, and in fact already is being, made. But intensifying effort in the two-year short run rather than deploying it over the 10-year long run would mean either dangerous deficits, such terrific taxes as to be self-defeating, or counter-inflationary controls that would debauch the businessman and the privae consumer. Incidentally, they quite possibly might suck the Administration into a quicksand of economic demoralization and public resentment in which they would be quite submerged in November, 1952.

I am fully aware that many confident souls think we can manage inflation. They point out that there is a great deal more stretch in the system that we have now built up with the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and non-convertibility of paper into gold. They say: "We seem to be doing all right. What is there to worry about?" To this I answer: In the mixed psychological and mechanical process of our money-credit-market system, the breaking point comes when there is loss of confidence in the monetary unit in which values are registered and property is held or exchanged. A distinguished American not many years ago said: "The only thing we have to fear is fear itself." That aphorism might be applied to the present situation by saying: The greatest thing we have to fear in the economy of the United States is a spreading fear as to the future of the dollar."

That distrust is already upon us in some degree. It is not too late to cure it by sound public and private policy. But those policies have not been clearly enunciated. The signs of fear are daily accumulating as people ask each other, "What is the best hedge against inflation?" Hedging against inflation is a flight from the dollar. In recent months we have seen a growing procession of economic refugees fleeing from dollars into business inventories and consumer durables. Nonfarmers have been shopping for farm land and investors have been bidding for equities that presumably will go up with the inflation tide. Recently we have become aware that the nimble boys who even look abroad for inflation hedges are moving some of their capital out of the United States to havens in Europe, South America and other places. Those who are ready to take a chance on "containing" inflation may well ponder what happens when a stampede once gets started.

If "fear itself" is our greatest danger, those makers of our military, industrial and financial policies whose program brings a contagion of fear of the dollar will have much to answer for. I am not predicting that fiscal and monetary breakdown *will* take place within the next two years. I am enough of a social scientist not to be dogmatic on a point like this. We are dealing with human behavior, not a mere mechanical process, and it is impossible to say that 150-odd million people absolutely will act in one particular way and not in any other way.

But we know that individuals and groups try to exempt themselves from the inflationary process—that is, the pinch of higher prices. The labor unions do it by raising wages, and the employers do it by raising prices. But then labor complains that its new wages are "paid with wooden nickels," and so they must have another raise, whereupon the manufacturers and merchants say they must have another price raise becaues their costs have gone up. Thus, there is no end to the inflationary spiral except sheer exhaustion. The 1930s should have taught us how desperately hard it is to get things going again after a real smash-up.

When people talk so complacently of raising military spending from the recent $15 billion level to the already accepted $30 billion and then on a $45 billion or even more for years ahead, I get goose pimples. The possibilities of reducing non-military expenditures are so limited that that means annual deficits of from $10 to $15 billion a year. Personally, I cannot view the consequences of adding that amount to the present national debt of nearly $260 billion with any complacency whatever. We have not yet come to a showdown on the refinancing of the part of that debt which is held by the public.

One Year of Business Management?

Leaving you to wrestle with the thought that financial breakdown might lie ahead as close as two years from now, I turn to the question of what 1950 may do to lessen or to heighten that danger. Will the 82nd Congress play "politics as usual"? Will farmers, unions and businessmen insist on "business as usual"?

If the leaders in the several groups will be sobered by the seriousness of the situation and buckle down to use the brains God gave us and the decency we think is an American quality, we could in one year of good business management of our national affairs, one year of economic statesmanship, put ourselves on a sound foundation and ready to build for the ten-year span and, beyond that, for the longer future.

Our productive capacities are very great. Will we use them fully? Even these capacities are not limitless. Will we scale the load to the actual carrying power? Will Congress really insist that the fat be taken out of both military and civilian expenditures? Some pretty competent people tell us our soldiers in Korea were the most over-equipped troops ever committed to battle, and that even our Normandy invasion forces had to discard many burdensome gadgets before they were stripped down to fighting trim. If Congress acts as one Congressman talked and "votes every dollar the Pentagon says it wants," we will have waste and hoarding of materials by government, while civilian uses are curtailed and inflation fires are fanned.

Military appropriations need to be frugally scaled to carefully calculated risks and the Defense Department held to the business standards of economy and efficiency that are demanded in a well-run corporation. Ex-Secretary Johnson said: "I do not propose to have a peacetime WPA in the Defense Department," and went vigorously to work (with the aid of a firm of outside management engineers) to get rid of supernumeraries. As soon as Congress made its first move last summer to expand the defense budget, a wholesale restoration was announced. Our local papers carried news that 1,600 new spaces would be added to the vast parking precincts established at the height of World War II. With only a reasonable amount of economic statesmanship in Congress and in the Executive Branch; in corporation offices, and in union headquarters, we could unquestionably carry the weight of supplying the men and materials for an adequate military establishment without disruptive strain. But, in my judgment, if this is to be done, we must, during 1951, come to a real, though not completely rigid standstill agreement between labor and management instead of the endless spiral of wages and prices which is still under way without any voluntary abatement.

Three Months of the 82nd Congress

Finally, I come to the shortest of my suggested time perspectives, the next few months—in which we digest the election returns, interpret the enigma of Soviet intentions, and take the measure of the new 82nd Congress. We can guess at what the people intended to say through their votes on Election Day. But only when we see how their chosen Senators and Representatives talk and vote on particular policies and measures shall we know in what path the nation's feet are going to be set for the decade of the '50s.

Here I will give you a few guesses and pertinent comments. My first guess is that the new Congress will be lavish in the matter of expenditures, both military and civilian, and pretty wobbly on levying taxes that would pay as we go. One reason for this easy-going attitude will be the probable lull in the inflationary rush, now that revenues are being stepped up before war spending gets full headway. Even in the short run, however, there are other forces which may offset the few disinflationary factors. Congress will probably accept a deficit of $10 billion plus or minus as the easiest way out of any legislative impasse among pressure groups. They have already authorized sweeping controls, and my guess is that these controls will be applied more actively now that the election is out of the way.

But here is the real milk in the cocoanut. Congress may be pressured into putting a brake on credit controls—the most necessary and least objectionable of the lot. They quite possibly may intervene in materials controls, which are the second best offset to the inflationary gap. They will probably go for most price controls and some wage controls. These will not serve effectively to suppress the results of a continuing inflationary gap. On the contrary, they will absorb manpower, entail heavy expense, and impair the flexibility of business adjustments, which is the prime requisite for shifting part of our resources from civilian to military use.

What I regard as the most portentuous phase of this short-run prospect, however, touches the question of industrial capacities. It is already pretty clear that the economic philosophy entertained at the apex of the control pyramid, namely National Security Resources Board, is that the whole problem of price inflation and materials scarcities comes back to shortage of plant capacity rather than manpower hoarding, civilian and military, or the manufacture of excessive liquid purchasing power. This was a popular ditty long before Mr. Symington began to sing it. But his rich bass (or is it baritone?) gives weight and authority to the chorus.

The argument is a marvelous nut cracker. If business refuses to get prices down—in spite of rising costs—this is either due to their monopolistic curtailment in the use of available facilities or to the inadequacy of those facilities. If they will not or cannot bring those facilities up to the level set for them, then government must step in to finance new building. Whatever method is used, any substantial enlargement of these industrial capacities makes materials and manpower still scarcer. In both cases also the government will have substantial new control in basic industries whether as mortgagee or owner. It remains only to remark that the capacity objectives being proposed are fantastically high, as for instance 2,000,000,000 pounds annually of aluminum.

Of course some new construction is called for by the new conditions and also by the normal growth of the country. Such expansion is already under way, like the steel industry's addition of about 10,000,000 tons of annual ingot capacity by 1955 or even sooner. Taking our industrial plant as a whole, the stimulus of War II demand, aided by government financing and followed by an intensive five years of boom conditions has, broadly speaking, given us a plan and equipment that has proved quite capable of utilizing all the labor power we have had, even with unemployment down to excessively low figures. Now the war program promises to withdraw more effective manpower than can be added. Hence the problem would seem to be one of avoiding faulty administration of the productive resources we have. A sane ten-year preparedness program would not be crippled by lack of productive capacity.

The questions I have raised for 1951 seem to me to be markers on the road to what lies ahead. They are blank markers at the moment, but the lettering will begin to appear within the next few months as Congress acts and the people react. Hopefully, it would mean that we rise to a new standard of economic sophistication and social responsibility, confronted as we are by the grave issues of both domestic and foreign policy. Realistically, there are discernible dangers that we may remain at a level of confusion and political log-rolling that will result during the next few months in committing us to courses which will both jeopardize our prosperity and curtail the freedoms we have prized.

F. W. Straus Heads Conference Division

CHICAGO, Ill.—Frederick W. Straus, partner in the firm of Straus and Blosser, 135 S. LaSalle Street, is serving as Chairman of the Investment Banking Division of the fifth annual National Conference of Christians and Jews Professional Men's dinner, to be held Dec. 14 in the Stevens Hotel. Co-Chairman of the Commercial Banking Division are Herbert T. Spiesberger, 33 N. LaSalle Street, and John McDonough, Vice-President of the Harris Trust and Savings Bank, 115 W. Monroe Street.

The dinner will celebrate the 15th anniversary of the National Conference in Chicago and guests will be the founders and original Co-Chairmen of the Chicago organization. They are Gen. Charles Gates Dawes, Vice-President of the United States from 1925 to 1929, Albert D. Lasker, President of the Lord and Thomas advertising agency, now Foote, Cone and Belding, until his retirement in 1942, and Judge John P. McGoorty, former Cook County Superior Court Chief Justice.

General Dawes, who headed a committee to organize the National Conference in Chicago during the summer of 1935, is Chairman of the Board of the City National Bank and Trust Co., of Chicago, 208 S. LaSalle Street.

Funds raised at the dinner will be used to support the work of the National Conference, which carries on a year-round program of education for better human relations through educational, religious, community and industrial organizations. The Conference has a membership of 10,000 persons in Chicago and 300,000 through the nation. Last summer it launched World Brotherhood, international human relations organization.

Continued from first page

The Prospects for Business And the Stock Market

'50s" or "Fabulous '50s." This is opinion, not a fact; and if you want to disagree, I'll take refuge in my introduction that analysis is an inexact science. Be that as it may, permit me to offer the reasons why I believe the businessman—and the investor—has the benefit of a basically favorable normal background.

(1) Psychologically, the nation has been through so much the past 20 years that the mere fact we've started the second half of the 20th Century can be the excuse for optimism. All you need do to discover that we're tired of being emotionally upset, is compare the tone of the 1949 year end annual business reviews with those of the previous year. In 1948, the fashion was "to view with alarm"—in 1949 it was to "view with hope;" the observer might have said the same thing, but the emphasis was different.

(2) With the critical years which might have paralleled 1920-1921 having passed without a major depression, the theory that a bust must follow every boom has been discarded. This change in the country's thinking can't be underestimated in that it removes a fear which has been in the public consciousness the past few years. With so large a percentage of our national income spent for goods and services that aren't necessities, confidence is a very important factor in the business equation.

(3) This is a vigorous country—and our inventive genius which is constantly developing new products that create new businesses can really flower when it has half a chance. Take a look in your kitchen and you'll probably find such things as a detergent for the dishes, plastic curtains, fluorescent lighting, aluminum spice shelves, copper bottomed pots and pans, etc. None of these were made before the war. Then go into the living room and turn on your television set. You're looking at a new, multi-billion dollar industry.

(4) Contrary to the thought so often expressed in the '30s, ours is a growing rather than mature economy. Even if we're not manufacturers of baby carriages or children's clothes, we can't help but benefit from the fact that the population has grown from 130 million to 150 million people in the past decade. This increase is bigger than that experienced in any other ten-year period in our history, and means a new consumer market as big as the State of Illinois. In short, there's a new scale of demand on which industry can capitalize.

Incidence on the Investor

As far as the investor is concerned, these long-range generalizations are intensified by two highly significant facts: (a)—The current demand for securities is in good part from semi-permanent buyers—contrary to the bull market of the '20s which fed on margin speculation; (b)—There are factors at work which will tend to increase the overall demand for securities—while there has been practically no increase in supply. Let's pursue this thought, for the law of supply and demand obviously works in the stock market just as it does in the shoe business.

(1) On July 1, New York State followed the lead of Massachusetts and adopted the "Prudent Man" rule which in effect permits up to 35% of a trust fund to be invested in common stocks. Furthermore, only a month ago the New York State Savings Bank Association went on record as favoring the investment of a small portion of their assets in common stocks. This followed talk last summer that the Life Insurance companies chartered in New York State would request enabling legislation in 1951. All of which points to one conclusion: Common Stocks are more respectable today than they've been at any time in 25 years—and the demand from fiduciaries is more apt to increase than to decrease.

(2) In addition to the foregoing, 1950 has seen the creation of another important type of fiduciary demand for securities: The investment of pension plan funds. As you will recall, the philosophy of pensions for workers—as well as for management—grew by leaps and bounds after the steel strike was settled last winter. While many pension plans are funded with insurance companies, a multi-billion stream of new capital must still be invested each year. Contrast this demand potential with the fact that the market value of all common stocks listed on the New York Stock Exchange currently is about $88.5 billion. Only part of this potential supply is available—13% of the shares listed actually changed hands last year.

(3) The financial community itself has done an excellent job of repopularizing the common stock idea—helped this year by management's desire to spread ownership via stock split-ups. When I speak of the financial community, I have in mind not only the aggressive advertising program of many brokerage firms, but more particularly the excellent distribution job done by the so-called open-end investment trusts and their dealers. They've brought Wall Street to Main Street, and in the process last year raised $278 million which was directly invested in the markets.

(4) As I visit different sections of the country, I'm at times surprised by the financial naivete of people one would expect to be common-stock-minded. Further, I'm at times surprised by the large numbers of wealthy people who don't own common stocks—all of which points to a huge untapped market. In this connection, I note that there are E Bond maturities in amount of $1.5 billion in 1951, $3.9 billion in 1952, $5.4 billion in 1953 and $6 billion in 1954. If the history of the 1920s—when Liberty Loan bondholders became corporate security holders—is repeated in part, the security salesman's lot will be a happy one.

Obviously, if all the potential billion dollar stock buyers were to be in the market on or about the same time, it's possible certain common stocks would actually command a scarcity value. But portfolio management is as inexact a science as analysis—and I don't visualize a set of circumstances which will force the potential buyers to compete with each other. Thus, I'm not making a prediction; rather, I'm generalizing as to the latent market factors which deserve recognition. Similarly, my comments relating to this business era expressed a background philosophy rather than an appraisal of currently aggresive forces.

Current Popular Opinion

Let's therefore be specific and attempt to decide whether there's justification for the belief that business and the market are on a one-way street. As I see it, this fairly widespread view is basically related to the qualitative political factor in the economic equation—to our national defense program. In particular, popular opinion seems to be placing great reliance on the stimulus theoretically stemming from the facts that:

(1) The national defense *appropriation* for the fiscal year which ends next June 30 is more than double the roughly $12 billion we actually spent on our armed forces in each of the past three years.

(2) At a recent conference, the Secretary of Defense is reported to have confirmed news reports that our Defense Program would last four years or more—with the budget doubling again in the 1952 fiscal year.

(3) Although this would mean that the defense appropriation for the year starting next July 1 is more than four times the $12 billion expenditure of recent years, General Marshall is quoted as saying that "Every effort would be made to see that military orders were timed to take up any slack developing through a falling off of civilian production."

Perpetual Motion?

All this sounds fine—and the government obviously has a vested interest in the maintenance of prosperity. Yet, I'd like to raise a still, small voice to inquire whether the Administration—or anyone else—has been able to develop a perpetual motion machine. I'd also like to inquire whether anyone has the omniscience to change the balances within our economic machine without interrupting its operation. Mind you, I'm not talking about the military necessities which everyone accepts; I'm only talking about the economic realities. In the present instance particularly, there's a question as to whether the recent heavy handed monetary and physical regulations will help kill off the boom before it has been replaced.

The reason I make this point is the fact that there's a distinct difference between a government appropriation and an actual expenditure—and the telephone number figures we've been reading about refer to appropriations, not expenditures. Furthermore, there's a lag between the two terms because of a physical limit to the government's ability to spend money under present conditions. It may surprise you to learn that our actual national defense spending still isn't far above the pre-Korean rate. Specifically, the annual rate of defense spending in the September quarter was $12.9 billion and it rose to $15.3 billion in October. While the trend will accelerate upward in the first quarter of next year, the $30 billion annual rate of spending—the figure approximating our appropriation for this fiscal year—probably won't be reached until the summer of 1951.

Depressing Credit Restriction

Although potentially high national defense spending thus is a good way off in terms of our business life, the controls the government is applying will have an immediate effect on the economy. As a case in point, the credit regulations go straight to the heart of the fact that the pre-Korea boom in effect was financed on borrowed money. Note the fact that over ⅓ of the lower-priced homes built in the second half of 1949 were bought without a down payment; total consumer credit rose some $4 billion between June, 1949, and July, 1950; even the mail order companies found that about 30% of sales this spring were on an instalment basis. If anyone here doubts that the new credit regulations aren't an effective sales depressant, all he need do is talk with used car dealers, the home furnishings stores which do a large credit business or the small appliance dealer. You'll discover that business is off—that prices are down—that it's possible to buy goods at discounts from list.

True, some of the soft spots now developing were inevitable even before the tightening up of Regulation W. There was a great deal of anticipatory buying after Korea which now has to be digested—and some businesses previously were reaching a saturation point which spelled later production cutbacks. Significantly, however, the government's regulations and controls will have particular impact on the two industries which were the backbone of our 1949-50 prosperity; auto and building.

While it's true that regulation X only singles out residential construction—and residential building as such is less than 40% of all new construction—it's difficult to visualize a sufficient increase in say public works to take up the slack. Thus, the most reasonable expectation at this time is that total new construction in 1951 will decline perhaps 15% from this year's all time peak. Similarly, although the truck outlook for 1951 is favorable — for more reasons that the fact that trucks are not covered by Regulation W—total new car and truck production will decline next year by perhaps 20%. Even if the materials and credit were to be available, another better than 6.5 million passenger car year isn't in the cards for 1951.

A Transition Period

To put it in a word, I think we're now in a transition period—with the scope of the readjustment to become more clearly defined over the winter months. In this connection, two things seem fairly certain: 1—Coming months will find us in an economy of paradoxes—an economy where the reaction in consumer durable goods has only slight side effects on other major industries. Many businesses will face a problem of production at the same time others are worrying about sales. 2—There's a floor to the readjustment—and the FRB over-all production Index probably won't decline more than 10% from the current level—if that much. This because not only will the trend of government defense expenditures accelerate upward after the turn of next year, but because industry's expenditures for new plant and equipment are scheduled to reach an all time peak in 1951. Business has discovered that although post-war expansion and rehabilitation plans as such were completed by 1949, the superimposing of defense on a prosperous peace time economy spells a need for additional facilities.

Application of this premise on the business trend to the outlook for the stock market is not as simple as one and one equalling two; don't forget, this is an inexact science. And the essential function of the stock market is to discount the future rather than mirror the present. As a case in point, the market recently has suffered from what might be termed a surfeit of good news; the obvious in the form of brilliant year-end dividends has lost its charm. While the prospective decline in over-all business activity as such is too small to be cause for great concern, the fact remains that it will mirror a period of distortions. The transition now taking place spells confusion — confusion spells doubts and fears—doubts and fears spell uncertainty — and uncertainty is not condusive to sharply rising prices. Some new spark is needed to rekindle enthusiasm—such as greater confidence in the corporate earnings outlook—even though it be a lower level of per share results—or lessened confidence in the purchasing power of the dollar.

Market Prospects

In short, the imponderables suggest that the market as a whole may do relatively little in nearby months. After all, there's no rule that says the market *must* go straight up — or straight down; we've just spent close to three years fluctuating within a roughly 30 point trading range. I'm not ruling out the possibility of temporary new highs in the averages at this time; there's a 50-50 chance this will happen, for election results strengthen my arithmetic which indicates there's no immediate need for an Excess Profits Tax. Moreover, the underlying fact remains that common stocks offer better value for the dollar than any other form of investment. Yet, my intuition tells me that even in this Alice-in-Wonderland atmosphere, the tree won't grow to heaven in the remaining months of the year, 1951 is another story.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—James D. Rutter has become associated with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building. Mr. Rutter was formerly with Central Republic Company and Halsey, Stuart & Co., Inc.

A Little Too Silly!

"Never in all human history has one single organization brought so much good (as the C. I. O.) to so many people.

"We have fought off the attacks of employers who would smash all unions; of legislators who would seize from our hands the traditional rights of American citizens; of totalitarians who would bore into our organizations in order to subvert them and pervert them in the interests of the evil ideologies of dictatorship. But no outside interest, no hostile force has been able to thwart our constant progress.

Philip Murray

"Every forward-looking, long-range measure which has been advanced by organized labor and other liberal groups has been bitterly contested in an effort to maximize business profits and to undermine the advances gained by progressive legislation in preceding years."—Philip Murray.

Labor leaders, like politicians, must, we suppose, indulge in a good deal of nonsense to hold their followings, but this outpouring of Mr. Murray seems to us to be a little too silly even for such purposes.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market remains on the constructive side, with the eligibles the pacemakers, despite the interest that is being shown in the restricted obligations, particularly the near-eligible ones. The longest bank obligation has made the best showing price-wise, followed by the 1956 maturities. Nonetheless, no substantial uptrend is looked for in these securities in spite of the improved psychological attitude of buyers of these obligations. Reserve requirements could be still raised after the turn of the year and this would have an effect upon the market action of the eligibles. Also the approaching refunding might bring along issues which could influence the price trend of outstanding eligible obligations.

The tap bonds, that is, the longest ones, were able to move away slightly from the 100.26 level. This action, it is believed, in some quarters, indicates liquidation is about running its course and there should be a greater tendency in the not too distant future to have these securities assume a more buoyant tone.

The short-term issues remain firm and active in face of a bill rate which is still being pushed up by the authorities. Some switching is being done from the shorts into the medium and long eligibles.

No Market "Surprises" Expected

With sentiment in the money market decidedly improved, because it is believed there will be no immediate change by the authorities in reserve requirements, there has been greater buoyancy in the whole government list, particularly in the bank issues. It is the opinion of most followers of the money markets now that nothing will be done in the near future to upset market conditions, which would tend to complicate the coming financing of the Treasury. Because of this feeling there has been some lengthening of maturities by the commercial banks, with the 1956s and the September '67s getting a great deal of attention. Volume has enlarged slightly but not enough yet to say that the market has discarded its thinness which has been its main characteristic for some time. Also there has been more than a passing amount of professionalism in the recent strength in the eligibles because dealers and traders have been taking on quite a few of the longer-term issues. Nonetheless, these purchases have not been very sizable because there have not been too many securities changing hands in the recent display of strength.

Confident Buying in All Issues

The ineligibles likewise have been giving a better demonstration because it is believed there will be less of these securities coming into the market as time goes along, and because there are more institutions taking on these issues than was the case a short time ago. This buying is expected to expand. The Vics moved away from the so-called "pegs," although there are no indications that a sharp run-up in price is in the cards for these obligations. Savings banks and a couple of insurance companies were the reasons why the longest tap bonds have been acting better.

The nearer eligible restricted issues have been well taken with averaging down playing a very important part in the better market action of these securities. Shifting from the long bonds into the shorter ones has also been a contributing factor in the uptrend of the near eligible restricted obligations. Fire and casualty companies, charitable organizations and traders have been the principal operators in these bonds.

Treasury Refunding in Spotlight

The December-January financing is now getting more attention because it will not be too long before the Treasury will be making known the way in which the maturing obligations will be taken care of. There seems to be a growing feeling that impending operations will not be another occasion for a split between the monetary authorities. Accordingly, it is believed there will be an offering of securities made to holders of the maturing obligations that will be in line with prevailing conditions. As usual, there is that same guessing game going on, but there is not the same building up yet as to what might come along as has been the case in the past.

It seems as though there are two schools of thought in the picture at the moment on the December-January financing. One group holds to the opinion that short maturities will be used, as in the past, with 13 to 15-month 1½s being their idea of what to expect. On the other hand, a five-year 1¾s is looked for by the other group, but at the same time they are not discarding the possibility of a combination offer such as short 1½s and the 1¾s. While it is realized that a 1¾% for five years does not seem to give enough consideration to the narrow yield spread between a one-year and a five-year maturity, it is pointed out that the shorter maturity will have to be replaced next winter, with no assurances that rates or terms will be as favorable at that time. Likewise a lengthening of maturities is what the bank market appears to need, and this should be as good a time as any to do it.

The maturing obligations are not yet giving any definite clues as to what they expect to get in the refunding. The Dec. 15 maturity, however, has been active and buoyant and is selling just above 100. This may be the way hope is being expressed that something better than a 1½% issue will be received. The January maturity gives no indication of anything other than a short-term coupon obligation.

With Investment Research

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Charles N. Bishop is now with Investment Research Bureau, 1272 South La Brea Avenue. He was formerly with Marache Sims & Co.

Johnson & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Mrs. Kay Crofton, Bonnie P. Kramer, John W. Kramer, Anna K. Lee and Howard Lee have been added to the staff of Johnson & Co., Russ Building.

Continued from first page

The Excess Profits Tax a Bad Tax

consider whether the excess profits tax does in fact siphon off war caused earnings and whether or not there are more appropriate ways to accomplish this end. We must also consider whether such a tax would adversely affect our economy—even a war economy. In short, would such a tax impair our capacity to wage war. In order to win a war we must divert all possible men and resources to war production and outproduce the enemy. We must not fail to take into account the effect of taxes upon our power to wage war.

Why Not An Individual Excess Profits Tax

So far public discussion of excess profits taxation has been concerned only with taxation of *corporate* excess profits. It is probably true that some of the most ardent advocates of corporate excess profits taxation would just as ardently oppose the taxation of individual "excess profits." But if it is reasonable to tax corporate "excess profits" it is just as equitable to tax individuel "excess profits." We might levy an 85% tax on all individual incomes in excess of the 1946-49 average net income received by the individual. Such a tax is not here seriously proposed because it would not only operate inequitably between individuals, but would impair the nation's capacity to wage war. But in logic if a corporate excess profits tax is good so is an individual excess profits tax. The same inequities — the same unfortunate economic effects that would flow from an individual excess profits tax would apply equally to the corporate excess profits tax. In the case of the individual excess profits tax these problems and difficulties are perfectly evident. While they apply equally to the corporate excess profits tax they may not be quite as self evident. It may be illuminating to set down some of the inequities and problems of such an individual excess profits tax in order to point up the fact that essentially the same inequities and problems do apply to the taxation of corporate excess profits. The list below does not purport to be exhaustive and is based on the assumption of an 85% tax on individual net income in excess of the 1946-49 average.

(a) When an individual earned an amount equal to his 1946-49 average he would thereafter realize only 15 cents out of each dollar of income earned. He might then reduce his earning activities. Certainly he would not then be anxious for overtime work. Short of a stiff manpower draft with severe penalties total production would be diminished.

(b) Such a tax would be horribly inequitable to young men, particularly to young men whose income reflects increasing usefulness and responsibility. Consider how such a tax would operate in the case of a young man whose 1946-49 "base period" was a period of preparation for greater usefulness. In 1946 he carried a paper route and earned perhaps $600. In 1947-48-49 he was an apprentice tool-maker with a merely nominal income. In 1950 he began earning as a journeyman tool maker. Any tax that would serve to limit his income to the pre-1950 level would not only be inequitable but would reduce his productive activity. When such an individual reached the excess profits point, monetary incentive for work would be almost entirely absent.

(c) Such a tax would undoubtedly make it difficult to induce able men to accept greater responsibilities since effective pay could only be nominally increased.

(d) Such a tax would inevitably lay distinctly unequal burdens on men with the same earnings. Assume two men with incomes of $10,000 annually. One of these had average earnings in the base period of $11,000 — the other had earnings of only $2,500. The first would escape the tax entirely while the latter would pay a tax in excess of 60% on the same income.

It is easy to see the inequities and absurdities of an excess profits tax when applied to individuals. But every argument against an individual excess profits tax is equally applicable to a corporate excess profits tax. Corporations, like individuals, require some measure of incentive for top production. Corporations, like individuals, vary in maturity. Some corporations with small capitalization have spent recent years in preparation for increased usefulness. Just as in the case of individuals corporations with the same income would be taxed unequally by an excess profits tax.

Some Arguments Against Corporate Excess Profits Tax

Specifically the following practical and theoretical arguments may be advanced against the corporate excess profits tax. These arguments are based on the assumption of an excess profits tax generally similar to that of the World War II excess profits tax.

(a) Such a tax is only casually or even accidentally related to "war derived" earnings. As a matter of fact, when the accelerated amortization of war facilities of the present revenue act is taken into consideration, it appears that real war-derived earnings have a better chance to escape than nonwar-derived earnings. The burden of the tax is related to the accident of capitalization or recent earnings rather than to whether earnings are "war derived." The railroads will in general and with relatively few exceptions be almost immune because of heavy capitalization. But no one would argue that the increase in railroad earnings in war time are not war derived. They are war derived but they would largely escape excess profits taxation. On the other hand it is probable that the chemical industry in general would have lower earnings in wartime (because of lower margins on government business) than they would have if there were no war. But because of the strong secular trend in chemical earnings and because of characteristic light capitalization this industry would be hard hit by an excess profits tax.

(b) An excess profits tax is an unwise drag upon progress. To a considerable extent the burden of the tax is laid in inverse relation to the social and economic contribution of industries and enterprise units. Such a tax will generally be no burden at all on industries with large amounts of obsolescent or semi-obsolescent capital whose products have not kept pace with the changing structure of demand. On the other hand, such a tax effectively prevents the development of new enterprises that offer new methods or old products at lowered costs. The essential element of economic progress is change but the excess profits tax is a penalty on innovation and a stimulus to stagnation.

The case studies of Butters and Lintner[1] have shown how repressing are high Federal taxes on growing enterprises. But our economic well being now and in the future depends on growing, expanding enterprise. Indeed our ultimate capacity to wage war depends on such enterprises. An excess profits tax bears most heavily on the most socially useful units and very lightly on less socially useful enterprise units. It is a penalty on social usefulness and a stimulus to stagnation.

(c) An excess profits tax is a deterrent to cost reduction and efficiency in production. An excess profits tax has been urged as a device to fight inflation. It is true, of course, that a company subject to high excess profits rates gets very little advantage from an increase in prices unless costs correspondingly increase. But an excess profits tax is a powerful stimulant to increased costs. Such costs as salaries and wages and numerous other expenditures are likely to skyrocket under such conditions. There would be every incentive not only to expand costs generally but also to divert resources to essentially speculative undertaking with the hope of extraordinary return especially where the return might be in the form of capital gains taxed at lower rates. Witness the oil exploration activities of various enterprises not previously engaged in the oil business during the period of the last excess profits tax. The major labor unions are well aware that a firm subject to excess profits tax at high rates is in a weak position to resist wage demands. The excess profits tax is certainly not anti-inflationary. On balance it is probably inflationary.

(d) An excess profits tax is a stimulus to monopoly, but Senator O'Mahoney of Wyoming, who is a leading opponent of monopoly, is also the chief spokesman for the revival of the excess profits tax. It must be that the relation of the excess profits tax to the growth of monopoly is not well understood. It should be clearly understood that business enterprises will not regularly continue to pay high rate excess profits taxes. They cannot, of course, simply refuse to pay. But they can and indeed must adjust to the circumstances of the tax. These adjustments would inevitably reduce the excess profits tax revenues to a modest or nominal sum. It is quite likely that business will endure such a tax for a relatively brief interval, if there is general anticipation of quick repeal, but without such anticipation these adjustments would greatly stimulate the concentration of economic power as well as generally reduce the scale of economic activity. What are some of these adjustments that would have to be made and which would accentuate the trend toward monopoly as well as reduce economic activity? Small, closely held companies might simply dissolve as corporations and reorganize as general or limited partnerships. The limited partnership has not been extensively used because of some inherent disadvantages in raising capital. Such a change in the form of organization would, of course, make growth more difficult and would be socially undesirable. Other small corporations would simply sell out to larger concerns with more comfortable E. P. T. credits in the same or allied fields. It would probably be possible for a corporation with an impossible E. P. T. situation to sell out to a corporation specially organized for

1 J. Keith Butters and John Lintner, *Effect of Federal Taxes on Growing Enterprises*, Study No. 1, The Lockheed Aircraft Corporation, April 1944; Study No. 2, *The Polaroid Corporation*, November 1944. Harvard Graduate School of Business Administration, Division of Research.

that purpose provided new capital and new interests are introduced.

It is true that Sec. 129 would prevent tax benefit when the principal purpose of the consolidation or acquisition is to reduce taxes. But in a particular case it is difficult to prove that the principal purpose was tax avoidance especially when the corporations are in the same or related lines of business. Corporations would also be induced to undertake (perhaps through subsidiaries) hazardous undertakings and if successful the profits could be taken in the form of capital gains but if unsuccessful the losses could be largely offset against excess profits taxes.

(e) An excess profits tax especially a high rate excess profits tax, must of necessity be inordinately complicated and filled with contradictions. The determination of "capital" cannot be reduced to formula. Groves[2] reports that in 1940 there were still cases pending in the courts dealing with the determination of capital under the 1918 law. In order to determine invested capital it is necessary to go back to the date the corporation was organized and trace the capital accounts up to date. Balance-sheet capital may be inflated by write-ups or the stock par may have been reduced and the resulting capital surplus utilized to write down assets. Capital expenditures may have been charged to expense but not included as a deduction in the tax return. Certain transactions may have been charged on the books to capital accounts but included in the tax return as expense deductions. All of this requires examination and analysis of accounts long considered dead and perhaps running back for decades. If properties were acquired in a tax-free reorganization the capital is considered to be the cost in money and securities to the predecessor corporation. The cost to the predecessor corporation may be difficult to determine, especially where such property was acquired by the predecessor wholly or partly in exchange for securities.

Past depreciation must be taken into account in determining the present capital; and overdepreciation of previous years, of course, seriously understates present capital values. But this earlier overdepreciation may have yielded little tax advantage since corporate rates were much lower than at present. Moreover the body of stockholders may have changed over the years. Present stockholders are necessarily penalized for the overdepreciation, the tax benefit (if any) of which was received by a materially different body of stockholders.

All of this merely touches on one small aspect of the necessary complications inherent in an excess profits tax. There are, of course, many, many more. Indeed one of the great problems of excess profits taxation from the point of view of the taxpayer is uncertainty. There are so many possibilities for additional assessment and disallowances that no corporation can be positive concerning its tax liability until long after the event. This does not contribute to all-out production in either peace or war.

Excess Profits Tax as an Adjunct to a Price-Wage Freeze

It is sometimes urged that while an excess profits tax is generally undesirable because it freezes economic relationships that ought to be dynamic that it is a logical part of a general freezing of the economy. It is argued that it is reasonable to freeze profits if at the same time there is a freeze of wages, salaries, rents and prices.

It is doubtful if a very good case can be made for a price-wage freeze even in war time. There is some recognition of the fact that such a freeze is merely a suppression of symptoms and that a better approach is through sound fiscal policy. In any event we are not here concerned with this problem. We are only concerned with the logic of an excess profits tax in a setting which includes such a general freeze.

From the political point of view it may be that under such circumstances an excess profits tax would be inevitable. Moreover, if there are any circumstances which would justify an excess profits tax it is a freeze of all wages, prices, and rents. Even here it might be argued that a real wage-price freeze would largely make an excess profits tax unnecessary in that under these circumstances profits could not significantly expand. Perhaps the best way to put it is that an excess profits tax is no more uneconomic than a price-wage-rent freeze. In both cases the effect is to freeze relationships that need to be dynamic if we are to do the best possible job of waging war on the production front. In both cases all that is accomplished is to briefly suppress the symptoms of inflation.

Alternatives to an Excess Profits Tax

The excess profits tax is a bad tax not only because it would prevent full production and the most efficient use of manpower and resources but also because the burden of the tax depends on the accident of form of capitalization or previous earnings. An **excess profits tax has little relation to war derived earnings.**

In the kind of war or semi-war economy in prospect it is, of course, imperative not only that unnecessary expenditures be curbed, but that revenues be increased. It is sometimes urged that an excess profits tax is a bad tax but that the need for revenue is sufficiently great to justify even such a bad tax. This view clearly implies that there are no practical alternatives to this tax. Such a view is nonsense.

Renegotiation of government contracts can be a most effective instrument for directly and selectively reducing war derived profits. But war derived profits are not confined to direct government business. Part of our objection to the excess profits tax is that it hits war derived profits only haphazardly and even accidently. A simple increase in the corporate tax rate would be more equitable and in addition would not be as great a drag on production and development. It would hit all industries and not merely the more socially useful ones.

The recent increase in the corporate rate from 38% to 45% places this rate at a level 18% higher than it was during World War II. By contrast the rate on individuals (in view of permissive family income splitting) is not yet back to the World War II level. Thus no present further increase in the corporate rate seems justified until another increase in the individual basic rates is imperative.

Structure of an Excess Profits Tax

If, nevertheless, an excess profits tax is enacted consideration should be given to three structural improvements to the World War II pattern.

Provision for Relief. The World War II law contained a relief provision (Sec. 722) which was intended to modify the inequities inevitably resulting from the application of a very high rate tax based upon an arbitrary formula. In general this provision was intended to permit reduction of the tax in the case of growth companies and in the case of companies where the "base period" (1936-39) was not typical of operating performance.

It has been found that this well intended provision was almost impossible of rational application. It is the universal testimony that this relief provision simply could not be made to work because of the complexity of cases presented and because of the necessity to decide not only what did happen but also what might have happened. The former Acting Chairman of the Excess Profits Council has recently testified[3] that this provision has proved to be impossible of rational administration.

If an excess profits tax is enacted then we should not repeat this experience with an unworkable "relief provision." The relief should be inherent in the basic tax formula. There are probably many ways by which this could be accomplished. One would be to simply provide that the excess profits might be measured as the excess over the average profits of any two of the previous four years.

Should We Tax Taxes. The World War II excess profits tax did not permit the deduction of the normal tax and surtax in arriving at the income subject to tax. This has the effect of levying a high rate tax on earnings a part of which must be paid to the Treasury as ordinary normal and surtax. Any new excess profits tax should define excess profits as the excess of actual profits after the ordinary corporate income tax over (1) the average income less taxes in the base years, or (2) a percent of invested capital less ordinary corporate taxes that would be payable on such income.

What Is Invested Capital. In the excess profits tax in effect in World War II excess profits were defined as the excess earnings over either (1) average earnings in the base period, or (2) a given percent of "invested capital." But invested capital was arbitrarily defined as 100% of capital stock and surplus plus 50% of borrowed capital. No one would seriously argue that borrowed capital is not invested. (What other reason is there for increased borrowing?) Neither would anyone argue that excess earnings on borrowed capital is any more undesirable than excess earnings on stock capital. This provision amounted to nothing more than a differential tax levied on the **form** of capitalization. This provision resulted in highly unequal burdens of tax even when capital employed and actual earnings were the same.

If an excess profits tax is enacted it should provide for the inclusion of all capital whether owned or borrowed as part of so-called invested capital. To do otherwise would be to levy a tax not on "excess profits" but on the form of the capitalization.

Conclusions

(1) The excess profits tax is essentially a bad tax even for wartime in that:

(a) It is an unwise and potentially dangerous drag on progress. The burden tends to be laid in inverse relation to the social utility of enterprises concerned.

(b) Its burden is only accidently related to "war derived" earnings. Many industries would largely escape (railroads) while others would be heavily burdened even with no war stimulated earnings.

(c) It is a deterrent to cost reduction and efficiency in production.

(d) It is a stimulant to monopoly.

(e) It must of necessity be inordinately complicated and full of contradictions.

(2) If, nevertheless, an excess profits tax is enacted consideration should be given to the following changes in the structure of the tax as compared with the World War II pattern:

(a) The law should not contain a "relief provision" comparable to Sec. 722 of the World War II Act. Such relief should be inherent in the basic formula or definition of excess profits. This might be done (alternatively) by defining excess profits as the excess of actual profits over the average of any two of the previous four years.

(b) The law should not result in a tax on taxes. Excess profits should be measured as the difference between the profits after the regular corporate income and the permitted base.

(c) In the invested capital option there should be no discrimination against borrowed capital as compared with owned capital.

[2] Production, Jobbs and Taxes

[3] Peter Guy Evans, *We Don't Need An Excess Profits Tax*, "Commercial and Financial Chronicle," Aug. 24, 1950.

Chamber of Commerce of U. S. Opposes EPT

Resolution by its Board of Directors points out dangers and difficulties in devising an Excess Profits levy that will be suitable to existing situation.

In a resolution, adopted by its Board of Directors on Nov. 17, the Chamber of Commerce of the United States condemned the enactment of an excess profits tax which would be applicable to 1950 and 1951.

The full text of the resolution reads:

"The Chamber favors fair, normal, reasonable, not exorbitant profits during peace, preparedness or war. It advocates endeavor to achieve a balanced budget by reduction of less essential expenditures of the government and by increasing its revenues.

"There are no indications that any significant proportion of corporate profits this year or next will be attributable, directly or indirectly, to defense undertakings.

"Efficient procurement policies, repricing of government contracts, and other administrative restraints, combined with heavy taxes, apart from an undesirable tax of the 'excess profits' type, can be used to restrain any unwarranted profit-making from defense undertakings.

"It is impossible to devise a defensible excess profits tax suitable to the existing situation or even to an all-out war. A true excess profits tax would require determination of a 'reasonable return' for each individual company, an impossible task.

"It is an economically unsound method of taxation, with harmful effects upon production of both civilian and military goods.

"It is discriminatory and arbitrary and is particularly injurious to small and expanding companies. It is un-American in its discouragement of growth.

"It removes incentive to expand production because it adventitiously decreases the reward for greater effort and employment of capital. It discourages participation in mobilization of our resources for defense undertakings. It is a roadblock to expansion.

"It encourages wasteful practices in utilization of materials and manpower. It contributes strongly to inflation and the cost of preparedness.

"It is administratively unworkable and cannot wisely be depended upon to produce any predetermined amount of revenues.

"It is basically inequitable, being the only form of tax which penalizes the failure to earn profits during a prior peace year. It favors the over-capitalized companies.

"Once adopted, there is a threat of long continuance of this destructive form of tax, with its disruptive effects, upon the private enterprise system and its prevention of the progressive improvement of our economy.

"More simple and equitable ways are available to finance the cost of national preparedness and essential civilian activities of the government."

Both Chamber resolutions were proposed by its Committee on Federal Finance, of which Ellsworth C. Alvord, of Washington, is Chairman. In support of its opposition to an excess profits tax, the committee discussed corporation profits.

Preliminary reports of $10 billion corporate profits in the third quarter of 1950 reflect continuation of an already existing business boom and also scare buying touched off by the Korean War, the committee asserted. Actually, military orders are as yet no considerable factor, it said, adding that it is possible that, because of required conversion, corporate income may be reduced before defense earnings are reflected. The committee went on:

"Increases in business earnings this year show not only the results of plant expansion and, in some instances, higher selling prices, but also the benefits of lower production costs from modernization and enlargement of capacity.

"It must also be noted that comparisons with 1949 are distorted by the business slump of that year. Despite the rise in corporate earnings this year they represent no larger share of total national income than in 1948.

"Assuming a full-year national income figure of about $230 billion in 1950, corporate income before taxes would represent about 15%. This would be around the same proportions as 1947 and 1948, and 1941-1945, during World War II, but below the proportions of World War I.

"Net income after taxes in 1950 will be close to 9% of national income—again around the levels of 1947-1948."

Everts Elected Gov. of N. Y. Stock Exch.

Robert P. Boylan, Chairman of the New York Stock Exchange, has announced the election of Albert P. Everts, a partner in the Boston office of Paine, Webber, Jackson & Curtis, as a Governor of the Exchange. Mr. Everts, who has been associated with his present firm since 1910, will fill the vacancy in the Board created by the death of Lyon Carter.

Albert P. Everts

N. Y. S. E. to Close Sat. Dec. 23

The Board of Governors of the New York Stock Exchange has determined that the Exchange will be closed on Saturday, Dec. 23, but will be open Saturday, Dec. 30.

NSTA Notes

THE SECURITY TRADERS ASSOCIATION OF NEW YORK

Bowling League standings of the Security Traders Association of New York as of Nov. 17 are as follows:

TEAM—	Won	Lost
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	17	7
Leone (Capt.), Krasowich, Nieman, Pollock, Gavin	15	9
Burian (Capt.), Manson, King, Voccoli, G. Montayne	14	10
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	14	10
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	12	12
Krisam (Capt.), Bradley, Montayne, Weissman, Gannon	12	12
Hunter (Capt.), Lytle, Reid, Kruge, Michels	12	12
Serlen (Capt.), Gersten, Gold, Krumholz, Young	12	12
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	11	13
Donadio (Capt.), DeMaye, O'Connor, Whiting, Workmeister	10	14
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	9	15
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	6	18

Last Thursday being one week before Thanksgiving the usual Turkey and wet stuff prizes were bowled for. Hank Serlen (Josephthal & Co.) bowled like a champ and came up with a 212 single game and a 562 series winning a turkey, George Leone (Leone & Pollack) was runner up he too won a turkey, with Flanagan (John J. O'Kane, Jr. & Co.) and Jacobs (Sidney Jacobs Co.) winning the wet stuff.

Railroad Securities

Factors Underlying Strength of Rail Stocks

Action of the railroad stocks in the past week or so has again stressed the validity of the bulls' side of the argument. Periodically in recent trading sessions the market as a whole has shown signs of developing a stagnant, or even reactionary, tone. Consistently it has been brought back to life by a buying surge in the rail equities. Last week, for instance, seven of the 20 most active stocks on the New York Stock Exchange were rails and practically all seven scored large percentage gains. A good part of the activity has been in the highly speculative issues, with many new highs, but investment grade stocks have by no means been neglected.

Despite the sharp gains that have already been scored, analysts for the most part are of the opinion that further substantial price appreciation is still in prospect over the near and intermediate terms. As had been expected, dividend news continues highly favorable. Last week two names were added to the list of railroads paying extras or increasing the regular rates. Southern Pacific directors declared an extra of $0.50 and Kansas City Southern came forward with an extra of $1.00. Even with these extras, distributions of both of these roads remain conservative in relation to current and prospective earnings.

One factor in the recent renewed independent strength in rails has unquestionably been the start of hearings on a proposed excess profits tax. If such a tax is imposed (and there are some who believe that because of the changed political atmosphere it may not be) there is little question but that the railroads will at least be in a relatively sheltered position. Throughout most of the industry invested capital bases are high. A tax based on invested capital, then, would allow the railroads generally to earn more than they now are. Even a straight average earnings base, figured on postwar years, would leave a large number of roads favorably situated.

The tax picture, however, is not the only reason for a constructive attitude toward the rail equities. It is not even the most important factor. As stated above, dividend news is conducive to bullishness. So is the trend of earnings. This latter consideration will be a sharp spur to activity in this group for some time to come. Some measure of what may be expected is to be found in the October report of Chesapeake & Ohio, the first road to report. It reported net income for the month of more than $5,000,000 contrasted with a deficit of more than $3,000,000 a year ago when conditions in the coal industry were chaotic. Presumably before this column is released, directors of that road will have taken some constructive dividend action.

The industry generally will not show as wide earnings improvement in October as Chesapeake & Ohio which is largely a coal road. Nevertheless, sizable gains are anticipated for most roads in the final quarter of 1950 compared with a year ago when our economy was seriously disrupted not only by troubles in the coal industry but, also, by the steel strike. The steel strike in particular had repercussions on virtually, if not actually, every road in the country. It is also expected that these highly favorable year-to-year comparisons will continue well into 1951 as labor troubles still plagued the coal industry early this year. Presumably, under present emergency conditions, no prolonged strikes in key industries would be tolerated.

It is not only the near-term picture that is impressive with respect to the railroads. The bearishness toward the industry that prevailed virtually from the end of World War II to the invasion of Korea stemmed largely from widespread fears that a recession of major proportions was inevitable and imminent. Now such fears have been laid to rest. With the troubled foreign situation making essential a vast rearmament program, it is now generally conceded that a high level of industrial activity is assured for from two to five years. Under such conditions the railroads can hardly help but report high earnings for an extended period. This is particularly true in view of the steadily improving operating efficiency noted in recent months.

Continued from page 13

Anti-Inflation Battle Report

further expansion of bank credit. Moreover, if the System can sell securities from its portfolio it may set the stage for a multiple contraction of such credit. When the Federal Reserve shows a willingness to sell government securities at low prices and high yields, it encourages purchasers to buy them. Bank reserves will be drawn down either because the banks use them to purchase securities themselves or because depositors write checks on the banks to pay for securities purchased from the Federal Reserve. Unless Banks as a group have started out with excess reserves, the banking system must either decrease loans and deposits by five or more times the decline in reserves or it must borrow reserve funds from the Reserve Banks. Banks do not like to be borrowers except for very temporary periods, and so they make every effort promptly to adjust their affairs and to liquidate such indebtedness. The readjustment may involve contraction of lending, sales of investments, or both types of action.

However, it is important to point out here that the Federal Reserve does not carry on open market operations only to bring about a net increase or decline in bank reserves. It may act merely to offset the effect on bank reserves of other developments, such as gold and currency movements. Furthermore, both the type of securities which are purchased and sold, and to some degree the extent of open market operations, may be determined partly by conditions in the government security market.

Decisions to purchase or sell Treasury securities are made with primary consideration to general economic conditions. But the Federal Reserve cannot ignore conditions in the government security market, and the vigor and scope of open market operations must always be tempered by the necessity for maintaining an orderly, functioning market.

Discount Rate—Changes in the Federal Reserve Bank discount rates are the second measure available to the Federal Reserve to influence availability and price of credit in general. The discount rate is the rate at which the Federal Reserve Banks lend to member commercial banks. This measure is really a joint instrument with open market operations. This is because it is desirable to adjust discount rates in accordance with the direction of open market operations. If banks are losing reserves as a result of open market operations, it may not be desirable to permit them to replace those reserves by borrowing at the Federal Reserve Banks, at least, not without an additional penalty by way of paying an increased discount rate. This additional penalty is both a deterrent to member bank borrowing and, if borrowing is done, an incentive to repay the indebtedness at the earliest possible time. At the present time banks adjust reserves more frequently by purchasing and selling short-term Treasury securities than by borrowing from the Federal Reserve and repaying such credit. However, the terms on which banks can borrow from the Reserve Banks may be important at certain times. Furthermore, changes in the discount rate are looked to as one evidence of the opinion of the Federal Reserve regarding the general credit situation.

Reserve Requirements—Changes in reserve requirements are a third means of influencing bank reserve positions and thus the ability and willingness of banks to lend. Changes in reserve requirements do not lend themselves to flexible adjustment as do open market operations and discount rates. However, there are times when because of large Treasury borrowing needs or other special circumstances in the market, open market operations and discount changes may not be feasible on a large enough scale to bring about the desired change in bank reserve positions. Under such circumstances, an increase or decrease of reserve requirements may be appropriate. The Federal Reserve now has the power to vary requirements on demand deposits between minimums of 7, 10, and 13% for country, reserve city, and central reserve city member banks, respectively, and corresponding maximums of 14, 20, and 26%. In the period August, 1948, to June, 1949, it had authority to raise them to maximums of 18, 24 and 30%.

If reserve requirements should be raised from an average of, say, 17% to an average of 20%, each dollar of reserves would become the basis for $5 rather than $6 of deposits. Unless the banks had excess reserves to begin with, they would be forced to decrease their loans and deposits correspondingly or to raise new reserve balances by selling securities. The fact that they need to sell securities or borrow imposes a penalty on banks and acts as a deterrent. Furthermore, each new dollar of reserves received would form the basis for a smaller amount of deposit and credit expansion.

Selective Credit Measures — In certain fields of credit, the Federal Reserve sets the terms of lending and, as I said before, these terms directly affect the demand conditions for the affected credit. These fields are stock exchange credit, where margin requirements are set; and consumer and real estate credit, where, under emergency authority, down payment percentages and repayment periods are regulated. These fields lend themselves particularly to this type of regulation because terms of such loans can be standardized. By an increase in margin and down payment requirements and by a shortening of the period of repayment of real estate and consumer loans, some purchases are prevented. Those purchasers who are able to meet the requirements are more likely to have to cut down on other expenditures to make the larger payments both at the time of purchase and subsequently.

All of the actions of the Federal Reserve are taken under the authorization of Congress, and the Federal Reserve endeavors to keep Congress informed on the measures applied. In its Annual Report to Congress, the Federal Reserve summarizes the steps taken and the economic conditions giving rise to them. Furthermore, the members of the Board, the officials of the Federal Reserve Banks, and the System's economic advisers are always ready to go before Congress to explain the actions taken and to express their views on the economic situation.

The Role of Fiscal and Debt Management Policy

I am not suggesting for a moment that monetary policy can operate independently of other policies, particularly tax and fiscal policy and debt management policy. For maximum effectiveness, monetary, fiscal and debt management policies should work hand in hand.

The level of prices and of economic activity is greatly influenced by the relationship between Treasury receipts and expenditures—that is, by whether there is a surplus or a deficit. Whether Treasury securities, both new and refunding issues, are being sold to bank or to nonbank investors likewise has an important effect on the economy. A cash surplus on the part of the Treasury can be a very potent measure in combating inflation. This is particularly true if the excess of taxes over current expenditures is used to retire bank-held debt and thus to reduce the supply of money in the economy.

There are circumstances, of course, under which it is impossible for fiscal policy to serve in the desired manner. For example, high expenditures required by a defense or war emergency may be responsible for an inflationary movement. In such a situation it may be unrealistic to expect a Treasury cash surplus.

Even when fiscal and debt management policies are fully appropriate to the economic situation, however, monetary policy still has an important part to play in maintaining economic stability. Monetary policy alone is especially designed to influence the extent of private spending with borrowed funds. Furthermore, the flexibility of monetary policy makes it a desirable part of any program for achieving economic stability. It is possible for the Federal Reserve to act while the means for increasing taxes and expenditures are being decided upon. It is possible for the change to be in much smaller steps and to be reversed if conditions change. Although debt management policy can be more flexible than taxation and expenditure policies, debt management policy is limited by the structure of the debt outstanding as well as by a relatively narrow scope as compared with monetary measures.

Monetary-Fiscal Measures Already Applied

A number of important actions in the monetary and fiscal area have already been taken to combat the present inflationary situation by curbing private expenditures. One of the most important has been the increase in individual income taxes, by which some of the excessive purchasing power is being absorbed. This tax increase is a proper beginning, but further increases will be necessary. There is no reason under present circumstances why tax increases should not keep pace with increases in expenditures, so that a balanced budget will be obtained. Considerations of economic stability certainly demand that government receipts at least equal expenditures. With present income levels, we can and we must cover by taxation the level of expenditures anticipated for the next few years.

But even if we should have a balanced budget monetary and credit measures are not automatically eliminated. Some of the taxes will be paid with funds which would otherwise have been saved rather than spent, while government expenditures will all find their way into the expenditure stream. Furthermore, there will be increased private expenditures for plant expansion which will swell the total expenditure stream. These additions to expenditures must be offset by monetary and credit measures. To the extent that the budget is not balanced, however, monetary measures become much more important. Some steps have already been taken in the application of monetary and credit restraints, and others may prove necessary in the future.

With a view to limiting the availability of credit and affecting its cost, the Federal Reserve Banks increased their discount rate from 1½% to 1¾% in Au-

gust. As a result of the System's anti-inflationary open market operations, interest rates in the market rose, with yields on short and intermediate-term government securities up generally about ¼ of 1% since the middle of August.

Steps also have been taken to control the granting of consumer and real estate credit directly by the establishment of minimum down payment requirements and maximum terms to maturity under authority of the Defense Production Act of 1950. Effective Sept. 18, the Federal Reserve issued Regulation W setting minimum down payment and maximum maturity for consumer credit. As revised on Oct. 16, it provides for minimum down payments of one-third on automobile purchases, 25% on household appliances, and 15% on furniture, and sets the maximum period for repayment generally at 15 months. Effective Oct. 12, the Federal Reserve issued Regulation X defining the terms of real estate credit of private lenders. At the same time, the terms for Federal Housing Administration and Veterans Administration loans were tightened. Minimum down payments now range from 5% on houses for veterans costing under $5,000 to 50% on houses for nonveterans costing over $24,250. On a $9,000 house, the minimum down payment is set at about 11% for veterans and 21% for nonveterans. The maximum time for repayment is generally 20 years.

Over the period ahead fewer cars and other durable items and fewer new homes can be built if our defense needs are to be met. Regulations on consumer and real estate credit are designed to bring demand for consumer durable goods and housing into line with the necessary lower levels of production of civilian goods. If these credit controls were not in effect, other devices would have to be developed for accomplishing the same result or we would have spiraling prices, crippled war production, and black or gray markets.

Monetary expansion also can be kept down by appropriate debt management policy. At the present time the economic situation calls for sales of securities to nonbank investors. Should new borrowing be needed under present circumstances, the funds should be obtained if possible outside the banking system. As much refunding as possible should be done through sales to nonbank investors. The offering of securities which are attractive to such investors as insurance companies will decrease their willingness to make business and real estate loans and to purchase corporate and local government securities. At the same time, it will decrease the necessity for the sale of government securities to banks with accompanying monetary expansion. A beginning has been made in this direction through the opening up this fall of more Series F and G savings bonds to institutional investors.

Summary

Steps taken to combat inflation are not painless for consumers. Taxes are not painless. Neither are the restrictions on purchases involved in the regulation of credit. But taxes and credit measures are much more equitable than inflation itself. They are also much more compatible with our free enterprise economy than are price and wage controls and rationing. They leave a maximum amount of freedom for market processes to operate. They stabilize the general price level by influencing the total amount of expenditures. At the same time, they leave prices of individual items free to fluctuate in accordance with changes in demand and supply. Through the pricing mechanism, goods are still distributed to purchasers with the strongest demand and manpower and materials are attracted to the production of goods for which demand is greatest in relation to supply.

It is too early to judge the effects of the various indirect measures which have been taken to combat inflation. If the steps which have been taken thus far prove to be insufficient, then further measures must be taken promptly. It seems clear that taxes will need to be increased substantially before many months. Additional monetary and credit actions may also be needed and for this purpose it may become necessary to request additional authority of Congress in order to restrict the availability of reserves on which multiple expansion of bank credit can be based. As the future unfolds we will know more fully what measures will be required to meet it and we must be prepared to obtain authority for and to apply necessary measures. With resolute and timely action we can win the battle against inflation and keep our economy free.

Nominated for Officers of NASD

Wallace H. Fulton

Howard E. Buhse

Sampson Rogers, Jr.

Warren H. Crowell

Charles H. Pinkerton

WASHINGTON, D. C.—Howard E. Buhse of Chicago has been nominated Chairman of the Board of Governors of the National Association of Securities Dealers, Inc. Mr. Buhse is a partner of Hornblower & Weeks and a member of its Executive Committee. He will succeed John J Sullivan, Bosworth, Sullivan & Co., Denver. Election of NASD officers for 1951 will take place at a Governors' meeting Jan. 16.

Other nominations are: Vice-Chairman, Sampson Rogers, Jr., partner, McMaster Hutchinson & Co., Chicago, and Warren H. Crowell, partner, Crowell, Weedon & Co., Los Angeles; Treasurer, Charles H. Pinkerton, partner, Baker, Watts & Co., Baltimore; Executive-Director, Wallace H. Fulton, Washington.

Mr. Buhse was born at Prairie du Chien, Wisconsin, and is 44 years old. He was educated in the Minneapolis public schools and is a graduate of the University of Minnesota Law School, Class of '29. He is a member of Sigma Phi Epsilon and Phi Alpha Delta. Joining Hornblower & Weeks upon graduation, Mr. Buhse was admitted to partnership in 1943. He is a former Chairman of the Chicago Association of Stock Exchange Firms and of the District No. 8 Committee of the NASD. He is a director of Nation Wide Food Service and resides in Winnetka, Ill.

Mr. Rogers, 53, is a graduate of the University of Wisconsin Class of '20. He is a World War I naval air corps veteran. He has been a partner in his firm since 1935, is a member of the Midwest Stock Exchange and a director of Avenue State Bank, Oak Park, where he resides.

Mr. Crowell was born in Los Angeles and is 45. He is a graduate of University of California at Los Angeles. His firm was established in 1932. He is a member of Board of Governers of the L. A. Stock Exchange, a director of Seaboard Finance Company of Delaware and the Metropolitan YMCA, Los Angeles.

Mr. Pinkerton, 49, and a native of Baltimore, attended public schools there and took night classes at Johns Hopkins University, joining his present firm in 1921. He was made a partner in 1929. He is a former President of the Bond Club of Baltimore.

Mr. Fulton has been nominated for his twelfth year as executive director.

Percy S. Young Dies Public Service Official

Percy Sacret Young, retired Chairman of the Public Service Corporation of New Jersey, died at Mountainside Hospital, Montclair, Nov. 15, at 79 years of age. Mr. Young served New Jersey's largest utility for 44 years until his retirement in 1947. He was also prominent in national utility organizations and a director in several corporations. When the Public Service Corporation was formed in 1903, Mr. Young was elected its first Comptroller, and later Vice-President and a director in 1917 to 1939, thereafter becoming Executive Committee Chairman.

Besides his interest in New Jersey's civic affairs acting as a trustee of Rutgers College, and member of New York University Council, Mr. Young had been President of the National Commercial Gas Association, the Eastern States Gas Conference, the American Electric Railway Accountants Association, and the American Gas Association, also a Vice-President of the Edison Electric Institute and Treasurer of the National Electric Light Association.

Says Treasury Would Have Gained If Holding Period in Capital Gains Tax Were Shortened

Thomas B. Meek, retiring president of National Association of Investors' Brokers, contends shorter holding period would permit investors to exercise greater judgment and thus increase their taxable profits. New officers of Association of Investment Brokers elected.

Thomas B. Meek

The government would have gained at least $250 million in revenue if a three months' holding period for capital gains had been in effect during 1950 instead of the present six months, according to Thomas B. Meek, retiring President of the National Association of Investors' Brokers and Chairman of its Tax Committee, in his remarks before the annual meeting of the Governors of the Association at the Columbia University Club in New York, on Nov. 16.

"This change in the tax laws would have permitted investors, large and small, greater exercise of judgment," Mr. Meek pointed out. "For example, television stocks advanced 100% to 400% in the short space of two months early this year. It is our observation and belief that this rise would have been more moderate if many owners of these stocks had not been restrained from selling by the holding period. Before six months had elapsed much of the gains had been wiped out by changing conditions. The result—the security-holders did not take their profits and the government did not collect taxes on these profits."

"The potential increase in taxes from a shorter holding period is evident from study of the Treasury's reports," Mr. Meek continued. "From 1935 to 1942 inclusive the holding period was 18 months and estimated capital gains collections for these eight years were only $275 million. In 1942 the period was reduced to six months and in the next three years the Treasury's take is estimated to have been $1,341 million, a gain of over 1,000% annually. Average security transactions for these years are comparable.

"The charge that speculation would be fostered by the shorter period does not hold water in the light of actual events. The greatest speculative spree in our financial history occurred in 1929 when the holding period was 18 months and estimated returns from the capital gains tax in that year and in 1928 were over $100 million less than in 1945. It is our opinion, based on the actions of millions of investors and traders over a period of years, that a longer holding period tends to encourage wide fluctuations in securities prices.

"It is regrettable that the three months' provisions was eliminated from the recent tax bill on the floor of the Senate after having been passed by the House and approved by the Senate Finance Committee. It is our hope that this measure will be included in any new tax legislation for the purpose of raising additional revenues to meet our mounting defense expenditures," Mr. Meek concluded.

Frank M. Collins, Hornblower & Weeks' Chicago office, was elected President of the Association for the coming year. For the first time, Governors were elected from San Francisco and Seattle. Other officers and Governors chosen at the meeting are:

Officers

President—Frank M. Collins, Hornblower & Weeks, Chicago.

Executive Vice-President—Jack B. Huhn, Bache & Co., N. Y.

Regional Vice-Presidents—George W. Martyn, W. E. Hutton & Co., Philadelphia; Raymond J. Laude, Goodbody & Co., Detroit.

Secretary—E. William Ohman, E. F. Hutton & Co., Chicago.

Treasurer—Milton Leeds, Pershing & Co., N. Y.

Chairman Executive Committee—Thomas B. Meek, Francis I. du-Pont & Co., N. Y.

Governors

New York—Richard M. Ross, Dean Witter & Co.; Armand Fontaine, Merrill, Lynch, Pierce, Fenner & Beane; Robert J. Davidson, Fahnestock & Co.; Donald C. Blanke, Eastman Dillon & Co.; Nicholas Novak, Drysdale & Co.

Chicago—William H. Higgins, Paine, Webber, Jackson & Curtis; George B. Deacon, Thomson & McKinnon.

San Francisco—Charles G. Heineke, Dean Witter & Co.

Seattle—William H. Parsons, Merrill, Lynch, Pierce, Fenner & Beane.

Detroit—Al Curley, Bache & Co.

Philadelphia—William H. Arnold, Eastman, Dillon & Co.

Chase-Devine Group Offers $14 Million Hawaii Impt. Bonds

The Chase National Bank and C. J. Devine & Co. jointly head a group which is offering $14,000,000 Territory of Hawaii 1.80% public improvement bonds, due Dec. 1, 1953-1970, inclusive. The bonds are offered at prices to yield from 1.15% for the 1953 maturity to a dollar price of 100 for the 1969-1970 maturities.

The bonds, in the opinion of the group, are legal investment for savings banks and trust funds in New York State and for savings banks in Connecticut and Massachusetts.

In the opinion of counsel the bonds are exempt as to both principal and interest from all present Federal, State, municipal and local taxes, except estate, inheritance and gift taxes.

Associated in the offering group with The Chase National Bank and C. J. Devine & Co. are: Harris Trust & Savings Bank; Salomon Bros. & Hutzler; Union Securities Corporation; Drexel & Co.; Merrill Lynch, Pierce, Fenner & Beane; Paine, Webber, Jackson & Curtis; Blair, Rollins & Co. Inc.; Equitable Securities Corporation; Reynolds & Co.; Hornblower & Weeks; Laurence M. Marks & Co.; Hayden, Miller & Co.; Roosevelt & Cross, Inc.; Stranahan, Harris & Co., Inc.; W. E. Hutton & Co.; W. H. Morton & Co. Inc.; F. S. Smithers & Co.; Green, Ellis & Anderson; Whiting, Weeks & Stubbs; Central Republic Co. (Inc.); Provident Savings Bank & Trust Co.; First Securities Co. of Chicago; Wood, Gundy & Co. Inc.; E. M. Newton & Co.; Andrews & Wells, Inc.; Magnus & Co.; McDougal and Co., and F. Brittain Kennedy & Co.

Continued from first page

As We See It

let the reader take note of the number of World War II tax cases still unsettled five years after the end of active hostilities late in 1945.

Non-Corporate Business

Then, too, it is to be observed that business is not exclusively conducted by organizations taking the corporate form. There are a great many enterprises conducted either as partnerships or as sole proprietorships. One of the most noteworthy and one of the most numerous of this type of business is the farm. If the stockholders of General Motors should not profit by war or defense, then it would seem to be true also that the farm operators should not. Nor are all those who may benefit from war or mammoth defense efforts engaged in business in the ordinary sense of the term. Far more Americans work for salaries or wages than own their own enterprises. If the stockholders of du Pont must not earn more in wartime, or defense time, than in peacetime, by what line of reasoning can it be claimed that the employees of that giant enterprise are entitled to earn more?

Let it not be asserted that personal income taxes were increased too and that in this way the wage earner and the salaried employee quite generally were prevented from profiting by war in either the first or the second World War. Or that, similarly, the unincorporated enterprise was limited in the profit it might make and keep. It is a fact, of course, that personal income rates were raised, and that as a result many of the lower income brackets paid more taxes than ever before. The fact remains, however, that wage earners by and large earned and kept (so far as the tax collector was concerned) more than they had ever dreamed of doing. It can be said with some truth that there are good social grounds for avoiding too heavy a tax burden on these groups, but it would be difficult to find any good reason why they should profit by war—assuming that owners of corporate stock should not.

But there is another side of this situation which is all too frequently neglected. The politicians never tire of talking about the necessity of preventing or controlling inflation. They have a regular field day at it when war threatens or when war comes. They have not permitted the current crisis (if that is what it is) and the prospect of large outlays for defense to slip by without having their say once more about inflation and the rest. All this is natural enough. Rising prices are never popular with the consumer, and it is, by and large, the consumers who settle political controversies. Even the financial authorities let no grass grow under their feet in such a contest as this and we could wish they revealed a somewhat better understanding of the problem than is sometimes the case.

Taxes and Inflation

We can hardly afford to decide these tax issues without reference to the consequences upon what is known as the inflationary potential. The fact of the matter is that taxation in war or near-war is the key to inflation control. There is a popular notion, and it has been revived of late in one degree or another, that by "mopping up" savings through the sale of war bonds inflation can be avoided. This is true, however, only under very special conditions which do not often exist and which are not likely to exist in the calculable future. They certainly could never exist so long as interest rates are artificially fixed and so long as the so-called central banks stand ready to absorb government obligations at any fixed figure approximating the price at which such bonds were placed in the hands of the public. They are still less likely to exist when the purchaser of such bonds, as for example war savings bonds, are told that they may be legitimately presented for redemption at the end of the crisis and the proceeds used in the consumer goods markets.

It follows, then, that taxes must be levied with the situation as respects the availability of goods clearly in mind, if inflation is to be avoided. If consumers are to be rationed, either directly by fiat or indirectly by reduction in the quantities of the goods available, then thought must be given to the task of taking in taxes those funds which either will go into the black market for such goods or be hoarded in anticipation of the day when consumer goods will again be available. The thought that funds not spent by consumers during a war or during a defense effort can be "saved" and added to current income at some later date to make up for lost time, is sure to be a snare and a delusion.

Must Tax Consumption

Taxation must, accordingly, whether we like it or not, fall heavily on the consumer at times when the supply of consumer goods is to be shortened. The burden, or at least the additional burden, must, moreover, be distributed with an eye to the consumption spending pattern. That is to say the taking away of what little remains to those in the very high income brackets would have relatively little effect upon the demand for ordinary goods as compared with a tax which spreads its impact over the great rank and file which in any event buy the goods in question.

Can we not learn something about taxation from experience? See 1st sentence

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Planning to Meet Manpower Needs

to plants with large defense contracts.

While our pool of unemployed manpower is far from what it was at the time of our entrance into World War II, we are in much better shape in the **quality** of our manpower. Then both the skills and spirit of millions of workers had become dull through long unemployment. Now our work force is active. Workers have been using their skills. They have adapted themselves to industrial requirements. In the matter of equipment, too, we are also in better shape. Much that will be needed for the defense program is already in use or has been carefully preserved for use when needed.

These are items, on the right side of the ledger, which make us stronger now than we were 10 years ago. But we cannot afford any smugness about them. Meeting our manpower needs will not be easy. As I have indicated, we have considered three related but distinctly separate sets of problems in our mobilization planning. They might be broadly defined as follows:

(1) The problems arising from today's situation.

(2) The problems that probably will arise if further expansion of the defense program becomes necessary.

(3) The problems of planning for today and tomorrow in such a way that we will be on a sound base if total mobilization should become necessary.

It is probable that we, as a nation, can raise the levels of military production to those consistent with present appropriations and at the same time increase the armed forces to three million men, both without serious disruption of the civilian economy. A further expansion would begin to strain our manpower resources.

A Five Million Expanded Labor Force

For the long pull, taking in the possibility of a need for total mobilization, we have estimated on the basis of the rate of worker participation at the peak of the war in 1944 that the present labor force of approximately 65 million could be expanded by some five million more workers, including those who would be in the armed services. The sources upon which we can draw to expand our work force are:

(1) We can draw some 1.5 million workers from the group of the currently unemployed.

(2) More women can be brought into the labor force, but we shall have to allow for the fact that recent high birth rates will limit the number who can be recruited.

(3) We can utilize more handicapped workers.

(4) We can draw upon youth. Job opportunities and the operation of the Selective Service System will combine to speed recruitment.

(5) Some older workers, retired, will reenter the labor market.

(6) Factory hours, now averaging about 41, can be increased (They averaged 46 during World War II.)

(7) Some release of machinery, material and labor can come from the loss essential civilian production.

Whether for a limited, expanded or total mobilization, the nature of the demands upon our manpower resources will be about the same. They will include the demands for the armed forces; for defense production; for civil defense; for agriculture; for essential civilian goods and services; for commitments of aid to other countries.

The broad base of all our calculations and our planning has been that of voluntary cooperation, truly national in character and scope.

Mobilization Program

The national manpower mobilization program has been developing along the lines of three general principles.

The first is that each individual will be expected to serve in the capacity in which he can contribute most to the total mobilization program.

The second is that all employers, both civilian and military, will provide the opportunities which will assure full utilization of those abilities and skills of each individual which will contribute most to the total mobilization program. The third is that the government will develop and administer manpower programs designed to enlist to the fullest possible extent the support and resourcefulness of individuals to contribute to the achievement of the mobilization program.

In putting these principles into practice, several broad policies are being followed:

To meet the demands of expanding defense industry, employers are being urged to place their orders for additional workers with local offices of the State employment services. Clearance with these offices is particularly desirable before there is any out-of-area recruitment.

The public employment offices are revising their emphasis in some activities and revising their efforts in others to meet the new demands. Special attention is being directed toward constant appraisals and reappraisals of the labor market situation, not only nationally but in each important labor market area.

All studies, analyses and reports are being geared to provide information for the solution of defense-connected manpower problems.

Local public employment offices are paying increased attention to servicing employers receiving defense contracts. They are recruiting needed workers and encouraging better utilization of worker skills.

Technical assistance is being made available to employers on staffing and similar conversion problems.

Efforts are being made to discourage needless wholesale migration between communities and to minimize turnover, pirating and hoarding.

In areas where intense competition for workers develops, local public employment offices are giving top priority to defense establishments.

The Department of Labor, working closely with the National Security Resources Board, the Department of Defense, and the Selective Service System, is participating in policy decisions regarding induction into the armed forces, recall of reservists and national guardsmen, and the conservation of key or "critical" workers for essential defense production. The Department is likewise participating in the planning of a manpower program which might be required for full mobilization in an all-out national emergency.

Finally, present policies call for every effort to discourage indiscriminate advertising; to encourage the full utilization at their highest skills of all workers, including minority groups and the physically handicapped; to develop in-plant training and upgrading programs; and to institute a plan for voluntary transfers.

Our manpower program, at least during a period of partial mobilization, must be carried on within a "free labor market." This means that there exists a high degree of freedom of individual action on the part of workers to participate in the labor market, to shift between jobs, to accept or refuse employment. I know we can rely on the workers of the country to cooperate fully in achieving the manpower objectives of the defense program if they are well informed and can have the basis for an intelligent course of action. Under these circumstances it is especially important that management give careful thought to the influences and motivations which affect worker decisions and actions in the labor market. Management must realize that a wide variety of motivations are involved in a worker's decision to change his job or to accept new employment. One of the most important of these is the opportunity to exercise his skill and training and to advance up the job ladder. This is basic to job satisfaction. Another consideration, of course, is his take home pay—wages and hours of work. He is concerned with the working conditions, safety, adequacy of in-plant eating arrangements, transportation facilities, particularly where industrial plants are located in an outlying section of the community. Equally important is the consideration of job security, tenure and retirement. This undoubtedly will influence the mobility of the workers. It is obvious that even with these few motivations more care needs to be given to the adequacy of personnel policies, hiring methods, and supervision of the work force.

To summarize: Both in their own and the national interest, employers should make complete and detailed inventories of their present work forces. They should check the military status of their employees and determine the draft vulnerability of each. Detailed information should be gathered which will enable them to present detailed and logical reasons when requests for deferments are made. Employers should study their manpower resources and determine where they can get replacements. Where necessary, they should institute in-plant and out-plant training courses for the

expansion of skilled manpower. They should work with the local offices of the public employment service. They should let these offices know of their manpower requirements and their problems, and should make use of labor demand and supply reports and other information available there concerning labor market conditions. And finally, industry should make it a matter of policy that local labor supplies be exhausted before attempts are made to recruit outside the local area. Outside recruitment is usually a costly procedure. Industry must recognize its own community responsibility and its own indirect concern with the commuting expenses and strains that can go with immigration of workers when local supplies exist.

Voluntary Cooperation Needed

It all means voluntary cooperation, nation-wide. We want to carry forward this mobilization for defense in the free American way. American solidarity in emergency is written indelibly in the pages of our history. Once again, perhaps as never before, we are called upon to give evidence of the power that can be engendered when the people of the United States close ranks in exercise of their Constitutional privilege of citizen provision "for the common defense." As I have said, the present effort calls for industrial efficiency of the highest order. And in this connection some words of Woodrow Wilson come to mind. They are these:

"The highest and best form of efficiency is the spontaneous cooperation of a free people."

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Timing vs. Selectivity In Buying Stocks

two-year average decline. Dewey and Dakin, in a book on Cycles, published in 1947, stressed the average 40-month rise but also emphasized the consistency of major tops being reached about nine years apart — for example 1919, 1929, 1937, and 1946.

Certainly the net conclusion to be reached from an examination of these three charts is that no one can deny the importance of timing. It is a simple fact that, when a major decline sets in, no common stock, no matter how high grade, is entirely exempt.

However, the degree to which individual common stocks are affected certainly varies. Therein lies a very important key to investment. It is the basis of the second part of this discussion — the matter of selectivity.

Reviewing the consistency of the cyclical variations shown on all three charts, a convincing case can be made for timing as the most important single key to successful common stock investment. A strong-minded investor would secure excellent results by concentrating his investments at periodic low points, generally five years apart, selling stocks after somewhat less than a three-year upward move, and waiting close to two years before reinvesting. The major downward swing has generally been certain to bring prices down by 25% to 50%, and sometimes more. Nevertheless, from 30 years of experience, I must tell you that this is a theory which to my knowledge has rarely, if ever, been successfully practiced. Certainly no investment trust in the country has ever done it. I do know individual investors who have, in a broad way, been willing to act on the theory of making substantial sales when the market is high and when the general buying public is optimistic and enthusiastic. It is rare, however, to find individuals courageous enough to enter on a broad selling program near the top of a market. They generally fret about capital gains taxes; they are afraid of missing the last few points; they visualize a wild extreme top which may never come to pass. I have found much more courage to buy at low points. Even that can be done only when the investor has displayed foresight to have adequate cash on hand when bargains appear.

The conclusion is, therefore, that timing if well executed can certainly achieve extraordinary results. But is is very difficult for the average investor to achieve. He is much more likely to be too bearish at the low points, and too bullish at the high points. As a practical matter, good timing involves a type of psychological independence which is one of the world's rarest gems.

The Matter of Selectivity

We come now to the second part of our discussion—the matter of selectivity. It depends on the art of differentiation.

My experience tells me that excellent results can be secured by an intelligent program which places selectivity first in importance. An investor with such a policy will in the long run fare much better than the opportunist and proponent of timing.

In this discussion the question is whether a skeptical individual can be convinced that a well-selected list, even though purchased at relatively high points in the market, can serve his purpose of achieving, without too much trading activity, substantial growth in capital value over a period of years. It would be unfair to work on the unlikely assumption that purchases could be made at extraordinary bottoms, such as in 1932, 1938 or 1942. To provide a test, I have, therefore, determined upon two buying levels, in order to be as conservative as possible. The first assumption is that the securities to be analyzed were purchased at the midpoint of 1936. As you have noted from the chart, a bull market began in June, 1932, and culminated in March, 1937. Many high-grade stocks reached their maximum levels in December, 1936. Therefore, assuming a point midway between the high and low points of 1936, is, I believe, a very fair approach since it assumes the investor purchased stocks at fairly high prices. The second test is even more severe, since it assumes stocks were purchased at the absolute high that each stock reached in 1946, which was the top of the last market cycle.

The first table indicates how the market as a whole has progressed since the midpoint of 1936 and the high point of 1946. These figures are compared with the closing prices of Sept. 30, 1950, which are close to those now prevailing. I am using two types of indices, the Dow-Jones stocks consisting of 30 industrials, 20 rails and 15 utilities, and the Standard and Poor's index of 416 stocks. Between the two lists, I am sure one can secure a good indication of the market as a whole. As you will note, from the midpoint of 1936 the Dow-Jones 65 stocks improved 37% and the Standard and Poor stocks 29%. From the high point of 1946, the Dow-Jones stocks improved 3% and the Standard and Poor list declined 1%.

The second table shows the 100 stocks selected for our test. They include substantially all of the important industry groups and most of the leading companies. I have eliminated speculative situations and companies to which a prudent investor could not have reasonably given consideration in both 1936 and 1946. Only a few groups have been omitted due to lack of investment calibre. However, I have included a few stocks which were among leaders in important industries, though their records just prior to 1936 were not of the best. The reasons for this will appear later. To be fully representative, the list includes bank stocks and investment trusts which are not listed on the New York Stock Exchange, but still constitute major investment fields. I believe almost every analyst would agree on perhaps 90% of the same list.

We now come to the heart of the entire question; namely, the degree to which a program of intelligent selectivity could have secured results materially better than the general market. The test I have designed is as follows. I have assumed that an investor twice placed $1,000 in each of these 100 stocks, first at the midpoint of the 1936 range for each stock, and second, at the high point that each stock reached in 1946. By noting what the $1,000 invested in each stock is worth currently, we can secure a picture of what selectivity can actually accomplish.

Our third table shows the value as of Sept. 30, 1950 of this $1,000 invested at the 1936 midpoint in each of the 100 issues selected. We are assuming that all cash dividends have been withdrawn, and that all rights have been sold. The differences in results are amazing. The present maximum value of the original $1,000 is $4,571; the minimum is $474. The list should be studied and analyzed as a physician examines an X-ray picture. Out of this procedure certain conclusions become evident. Let me give you some of them:

(1) On 10 stocks out of 100, the original $1,000 would now be worth from $2,500 to over $4,500.

(2) On 40 other stocks, $1,000 would now be worth between $1,380 and $2,500, which would still be better than the Dow-Jones Industrial averages.

(3) On the other 50 stocks, the results would have been below the Dow-Jones Industrial averages.

(4) On 27 stocks in this high-grade list, an investor's capital would actually be worth less than in 1936, despite the 37% rise in the averages.

Results of Best Grade Issues

Now let me show you something surprising. Among the stocks providing the poorest results are the best grade income type of issues, stocks enjoying the highest ratings, stocks which generally constitute typical holdings recommended by trust departments of banks; for example, A. T. & T., American Can, Consolidated Edison, American Tobacco, Chesapeake and Ohio, and Woolworth. Furthermore, these stocks are among those which had the best records during the trying seven years preceding 1936. There is a lesson in this fact.

On the fourth table, I have taken the same list and reclassified the 100 stocks by industry groups. Please note the character of group performances. Chemicals, rubbers, steels, oils, dairy products, and insurance companies all did exceptionally well. Can companies, tobaccos, finance companies, motion pictures, utilities were generally poor. Decidedly varying results were shown by banks, drugs, beverages, automobile accessories, merchandising stocks, railroads and mining companies. The point is that good selectivity is certainly in part a question of sound group preference. However, to secure results that are genuinely satisfactory, it is necessary to understand and follow the sharp differences that continually arise between companies in the same industry.

We now come to our fifth and last table—the comparison with the high point of 1946. Remember that since the 1946 high, the averages have hardly changed. This table is extremely important. It shows how in relatively short period of four years, tremendous differences can appear in the market result on a list of 100 leading stocks. Here we find that out of our 100 stocks, 10 have improved 25% to 64%, about 20 more improved 7% to 20%, which is better than the Dow-Jones averages, and about 70 stocks were below average. In fact, on almost one-third, there has been a decline of 25% or more. Some have declined as much as 60% since the high of 1946.

If we were to consider, not the 100 leaders, but a list of marginal or speculative companies, the results would be even less favorable, because the past few years have witnessed a market domination by the best issues.

The chart covering the averages proves this fact in a simple and illuminating way. You will note that since 1936, the 30 reasonably high-grade industrials included in the Dow-Jones averages improved 38%, while the Standard & Poor list of 416 stocks improved only 29%. Since the high point of 1946, the 30 Dow-Jones Industrials improved 7%; the 416 stocks declined 1%.

I do not want to exclude the possibility that among stocks other than the leaders, there have been a few well-stablished companies wherein results were fully equal to the best among the leaders. There have even been some that have done better; however, these are exceptions. To unearth this type of investment opportunity is difficult, but it can be done. It has often been done by professionals, but seldom by amateurs in the art of investment. It is my conclusion that a policy of buying into small and medium grade companies will, over a period of time, work to the uninformed investor's detriment.

Certain other conclusion arise from analyzing our figures. Some of these are as follows:

(1) On the whole, an investor is generally wise to confine his purchases to one of the leaders in each group. The first company has often performed best, such as General Motors, American Can, Sears Roebuck, and International Business Machines. At other times, the second or third company, such as Dow Chemical, Standard of California, General Mills, Goodrich, National Steel, or Philip Morris, has proved most advantageous. A company showing a strong challenge to the current leader is often the best buy for the astute investor. However, buying into small situations in highly competitive fields is seldom successful. In times of declining business, such companies can seldom maintain adequate profit margins, dividends show much wider variations and poor market results follow accordingly.

(2) Beware of fields where the industry has matured and where further growth is relatively limited. This is the reason why many 1936 favorites have become sources of capital losses by 1950.

(3) Beware of situations where the profit margin is too substantial. It almost always results in harsh competition and years of declining profit ratios. This has been true, for example, in proprietary drugs and tobaccos.

(4) At the top of the boom, beware of the cyclical industries, including railroads. At low points, they may be sources of growth and profit. At high points of a market, consumer industry stocks are likely to be safer.

(5) Watch for buying opportunities among the leading companies in industries that have recently been temporarily out of favor. It may require patience for a year or two, but the percentage results are excellent. Goodrich and Container, two of the three stocks with the best records since 1936, are examples. Both companies had no better than fair records prior to 1936. An investor who is genuinely far-sighted should not even be intrigued with a stock whose full potentialities can be visualized as possible of realization in a few weeks or months.

(6) Industries and companies, like human beings, are born, suffer growing pains, reach maturity, and utimately wither. In buying stocks, it is usually best to invest not in new companies, or even during their years of uncertain infancy. Purchases should be timed to accord with years of greatest growth. Furthermore, certain industries lend themselves to greater ultimate potentialities; certain managements have demonstrated superior abilities. The art of discovering genuine growth-type companies is the best single key to common stock investing.

Now you may recall that early in this talk I raised the point as to whether there is a method of combining timing and selectivity so as to be alert to opportunities without being completely in and out of the market too often. I believe there is, unless the corporate earnings picture is changed by a severe excess profits tax. I believe the greater portion of an investor's common stock funds should be devoted to growth type stocks. Occasionally it will be necessary to make changes, as some industries reach maturity, or the status of a company changes, or more attractive situations are presented. The *minor* portion of a fairly active stock fund can be handled on a more opportunistic basis. Capital growth of unusual proportions can frequently be secured, for example, by purchases made in situations which have just passed through a period of difficulties. Examples are the rails, utilities, paper and rubber stocks during the last ten years. Varying percentages of the common stock fund can be kept in cash from time to time, awaiting buying opportunities. There will always be difficulties for someone in industry; if they appear temporary in character, purchases could be profitable. Furthermore, even in the holding of growth type stocks an investor should take at least partial advantage of the probability that the shorter five-year and certainly the longer nine-year cycles provide a pattern whose historical significance cannot be denied. The investor should be guided accordingly.

My over-all conclusion is that the far-sighted investor will serve his interests better by paying maximum attention to the matter of intrinsic merit rather than depending upon timing. He could be benefited in his selection of growth companies by those who have spent years in such work. If he is kept alert to opportunities as they arise, he will find that his common stock investments will ultimately result in satisfying his original major purpose of achieving augmented capital valuation and increased income.

With Investment Research

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Donald B. Connors is with Investment Research Corp., 53 State Street.

Joins Slayton Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Elmer A. Pursell is with Slayton & Co., Inc., 408 Olive Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

When I wrote last week's column, I anticipated that the market would be at new highs by the time you read it. So far this hasn't happened.

* * *

It's true that the averages snapped back from their recent lows and shot up again. But that was all. This doesn't mean that this is the beginning of the end. On the contrary, it probable means that we will see more strength, for a longer period of time, before any reversal worthy of the description will occur.

* * *

Despite this left-handed optimism I still consider the current market a dangerous one. I could go into reasons *ad infinitum*. But all the reasons I could think up would be the result of something I gained through long years of experience. I doubt if I could back up a single reason with figures that could stand up. In fact, these reasons are backed by a kind of intuition, and I have yet to find any yardstick that can measure that.

* * *

During the past week the short position increased sharply. Part of this was due to the fact that the averages were flirting with their 1950 highs. The assumption being that if they failed to go through then they would back off. Whether or not such reasoning is sound isn't for me to say. I feel that some of this short selling may be a little premature. It may even have within it the seeds of a new upward surge. Short covering can be a powerful impetus for advancing prices.

* * *

I've been asked if I thought the market was in a permanent uptrend, figuring way back to 1931 and also allowing for intermediate reactions. My answer to such a question is all bound up with timing, and what each investor is looking for.

* * *

One man wants safety; another wants yield; another seeks profits. To give an answer would be slightly ridiculous. No one column could possibly handle all these problems. To add to these, there is the added burden of taxes and whether a stock is bought for long-term or short-term holding, and what is meant by the terms "short-term" and "long-term." Everybody has different definitions.

* * *

Timing is something else. For example I like the oils, heavy glass stocks and a couple of specialties. That doesn't mean they won't be cheaper. A man who buys Standard of New Jersey at 85 for the dividend, will probably find it safe. But if the stock goes down to, say 50, he has to figure the loss against the dividend and the result won't make for good reading. Here's where timing comes in. If a reaction is indicated, buy the stock at a lower figure. The dividend will probably still be safe but the yield will be greater.

* * *

Right now I think the cream's off the market. Holding back would therefore be the prudent path to take.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Continued from page 5

The State of Trade and Industry

noticeably; an appreciably larger volume was sold than a year earlier.

A record annual rate of $284,000,000,000 in the quarter ended Sept. 30 was set by national production of all goods and services. According to the Department of Commerce, the above figure exceeded the pace of production in the previous quarter by a gain of $14,000,000,000.

The principal factor in the advance was attributed to the post-Korean spurt in buying by consumers fearing shortages and price advances.

Consumer spending in the September quarter soared to a new high gait of $198,500,000,000 yearly. This was $13,000,000,000 above the June quarter rate. Defense outlays in the September quarter were only $2,000,000,000 above the $12,000,000,000 annual pace of the preceding three months.

October building permit valuations turned sharply upward following the temporary letdown that occurred in September. The estimated costs of permits issued in 215 cities during October came to $520,255,660, according to Dun & Bradstreet, Inc. This marked a new all-time high for that month and was exceeded only in May, June, July and August this year. Last month's volume compared with $408,266,993 in September, for a rise of 27.4% and was 36.9% greater than the October, 1949, figure of $379,954,952.

Building permit values for 215 cities for the elapsed 10 months of the current year continue to run well ahead for the comparable 1949 period. The cumulative 1950 total is $4,714,419,031, as against $3,298,693,729 a year ago, or an increase of 42.9%. With two months still to go, permit valuations so far are one-fifth larger than the hitherto record total for the entire 12 months of 1949.

Steel Output Scheduled to Hold Unchanged This Week At 102.7% of Capacity

The steel wage negotiations continue this week. Even though the meetings were adjourned, contact between management and labor heads was kept open, according to "The Iron Age," national metalworking weekly.

The break in the wage-price picture may come this week. One thing is sure—if wages go up steel prices will go up too, this trade paper asserts.

As to prices, steel firms could not possibly absorb wage increases now being negotiated, so the estimate of $6 to $10 a ton raise with the probability towards the high side still stands.

Steel orders of civilian consumers will be cut back 30 to 50% during the first quarter of next year. Steel producers have decided the cutbacks will be necessary because of defense orders, essential civilian orders and heavy carryover of orders from fourth quarter of this year.

The amount of cutbacks will vary among products and producers. In adding up known requirements mills can estimate carryovers fairly accurately. They are also setting aside the maximum on each product which they must accept for DO orders, although they expect these limits will have to be raised in the near future, "The Iron Age" adds. Their estimate on tonnage needed for essential civilian programs will also have to be raised as more programs are approved.

This means that regular customers without the magic numbered priority orders will soon be getting 30 to 50% less steel. And new customers won't stand a ghost of a chance of getting on the order books without government help or utter benevolence of a steel producer.

Steel people still have to estimate the essential requirements which they will be called upon to fill. As things stand now, there is no definite indication from the government or the military as to what will be required for defense or essential civilian programs for any given future period, this trade authority notes.

Steel people don't understand why military departments have not determined what they need and what they can buy within the limits of funds allotted by Congress; even an approximate figure would be better than the piecemeal way controls are being placed on steel distribution. These creeping controls are now turning into a trot. No one can know where he stands until requirements become known and are matched against production.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steelmaking capacity for the entire industry will be 102.7% of capacity for the week beginning Nov. 20, 1950, unchanged from a week ago.

Output for the current week will represent 10th consecutive week in which steelmaking furnaces will be operated at an average of more than 100% of capacity.

This week's operating rate is equivalent to 1,980,800 tons of steel ingots and castings for the entire industry, unchanged from a week ago. A month ago, based on new capacity, the rate was 102.6% and production amounted to 1,978,900 tons; a year ago, based on the smaller capacity then prevailing when most of the industry was recovering from the steelworkers' strike, it stood at 78.2% and 1,441,600 tons.

Electric Output Extends Advance to Set New Historical High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 18 was estimated at 6,728,334,000 kwh., according to the Edison Electric Institute.

The electric light and power industry this week set a new historical high record. The previous high record was established a week ago.

It was 154,250,000 kwh. higher than the figure reported for the previous week, 1,083,899,000 kwh., or 19.2% above the total output for the week ended Nov. 19, 1949, and 1,101,434,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Reflect Further Contraction in Latest Week

Loadings of revenue freight for the week ended Nov. 11, 1950, totaled 839,612 cars, according to the Association of American Railroads, representing a decrease of 22,572 cars, or 2.6% below the preceding week.

The week's total represented an increase of 203,789 cars, or 32.1% above the corresponding week in 1949, but a decrease of 32,067 cars, or 3.7% below the comparable period of 1948.

Auto Output Drops Further on Parts Shortages and Model Changes

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 122,498 units, compared with the previous week's total of 161,009 (revised) units and 115,153 units a year ago.

Model changeovers and parts shortages combined to drop production of cars and trucks in the United States last week.

Total output for the current week was made up of 92,666 cars and 22,199 trucks built in the United States and a total of 5,999 cars and 1,634 trucks built in Canada.

For the United States alone, total output was 114,865 units, against last week's revised total of 153,695 units, and in the like week of last year 111,779. Canadian output in the week totaled 7,633 units compared with 7,314 units a week ago and 3,373 units a year ago.

An added stimulus to new car purchases was the order of the Interstate Commerce Commission on Tuesday of this week slashing railroad freight rates on new automobiles by approximately 12%, and to become effective Feb. 20, next. It is understood the reduction will involve savings of $10 and up for new car purchasers.

Business Failures Rise in Latest Week

Commercial and industrial failures rose to 170 in the week ended Nov. 16 from 135 in the previous holiday-shortened week, reported Dun & Bradstreet, Inc. Casualties remained slightly below a year ago when 183 occurred, but continued well above the 126 in the similar 1948 week. Failures were 45% less than in the corresponding week of prewar 1939 when 308 businesses failed.

Casualties involving liabilities of $5,000 or more rose to 126 from 89 a week ago but did not reach the 1949 total of 136 in this size group. Small casualties, those having liabilities under $5,000, dipped to 44 from 46 in the previous week and from 45 a year ago.

All industry and trade groups had weekly increases in failures except manufacturing 35. The sharpest occurred in retail trade where casualties climbed to 80 from 54; the increase was moderate in other lines. Both construction and commercial service had more failures than a year ago. Declines from the 1949 level were reported in manufacturing and wholesaling.

Six of the nine major regions reported rises in failures during the week. The most notable increases occurred in the Pacific States which had 57 as against 43, in the Middle Atlantic which had 54 as against 48, and in the South Atlantic where casualties rose from 6 to 17, the area's highest total in four months. A moderate increase from last year was reported in the New England, South Atlantic, West South Central, and Pacific States.

Wholesale Food Price Index at Highest Level in 7 Weeks

Continued upward pressure in food prices last week lifted the Dun & Bradstreet wholesale food price index as of Nov. 14 to $6.58, the highest since Sept. 26 when it stood at $6.61. Although still well below the post-Korea peak of $6.69 on Aug. 29, the current index represents a rise of 0.9% above the $6.52 recorded last week and the week before, and is 15.8% above $5.68 of a year ago at this time.

The index represents the sum total of the price per pound

of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Moves Sharply Upward

The Dun & Bradstreet daily wholesale commodity price index again rose sharply last week, closing at 304.15 on Nov. 14. The index has climbed almost 5% in the past three weeks and currently is only 1.5% below the all-time high touched in mid-January, 1948. The latest index compares with 297.79 a week ago, and with 244.70 on the corresponding date last year.

Grain markets were unsettled at times but the undertone remained firm with new highs for the season established for corn, oats, and soybeans.

Strength in the market was largely due to relatively small country marketings and good potential outlets.

Wheat was hesitant at times, reflecting weakness in the cash article, slow export demand, and continued dull domestic flour demand. Sales activity on the Chicago Board of Trade increased sharply last week, averaging over 60,000,000 bushels per day, as against 42,000,000 bushels the week before. Excellent weather conditions for corn picking and cribbing prevailed during the week, with the crop said to be drying out nicely. The official estimate of the 1950 corn crop as of Nov. 1 was placed at 3,105,436,000 bushels, a loss of 12,500,000 bushels from the Oct. 1 forecast, and 272,000,000 bushels less than last year's yield.

Except for moderate activity in hard wheat bakery flours early in the week, the domestic flour market continued dull. A decline in warehouse stocks of cocoa and a tightening in the spot position accounted for moderate advances in the cocoa futures market late in the week.

Aided by a favorable statistical position, coffee registered moderate gains after several weeks of declining prices.

Raw and refined sugar values remained steady. Trading in raws was rather quiet as most refiners have already covered their needs for the balance of the year. Aided by strong vegetable oil markets, lard scored a substantial rise the past week despite increased hog marketings and heavy lard production. Hog values continued to work lower with current values around the lowest of the season. Steers and lambs, on the other hand, were steady to moderately higher.

Domestic cotton prices were up sharply this week with spot quotations reaching the highest level in 30 years.

The rise was sparked by a smaller than expected gain in the November crop estimate and the announcement of an unexpectedly large increase in the export quota. Trading in spot markets was moderately active with sales in the ten markets totaling 244,300 bales in the holiday week, compared with 364,200 the previous week, and 414,600 in the like week a year ago. The Nov. 1 report of the Department of Agriculture estimated the 1950 cotton yield at 9,945,000 bales, or only 76,000 bales larger than the forecast of a month earlier, and well below trade expectations.

Trade Volume Responds Favorably to Cooler Weather and Approaching Holidays

There was a slight rise in country-wide consumer buying last week: total dollar volume was moderately above the level of the comparable week in 1949, states Dun & Bradstreet, Inc., in its latest summary of trade. Much of the increase was attributable to a combination of generally cool weather and the imminence of the Winter holidays.

Shoppers bought moderately more apparel last week than in the previous week; dollar volume was noticeably above that for a year ago. The demand for Fall and Winter suits, while not increased, continued at last week's fairly high level.

Housewives throughout the nation bought a slightly increased amount of food in the week. Food sales were moderately above the level of the similar period in 1949.

Thanksgiving buying was apparent in the marked increase in demand for poultry products and fresh produce.

The selling of canned goods did not alter appreciably from the previous week.

Consumer spending for house-furnishings, suffering from credit restrictions and increased excise taxes on many items, declined moderately in the week. While total sales volume continued to be slightly above last year's level, the volume of some individual items dipped below the level of a year ago. In general, large appliances and television sets were in limited demand, while shoppers' requests for housewares, furniture, and floor-coverings were steady with or slightly above the previous week.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 2 to 6% above a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England, Midwest, and Northwest +1 to +5; East +2 to +6; South 0 to +4; and Southwest and Pacific Coast +4 to +8.

The overall volume of wholesale ordering was virtually unchanged in the week, as bookings increased in many soft goods lines while they dipped for some durable goods. Total dollar volume of orders was slightly above the level for the corresponding period a year ago. There were slightly more buyers attending various wholesale centers last week than during the previous week, and moderately more than a year ago.

Department store sales of a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 11, 1950, advanced by 8% from the like period of last year. No change was recorded for the previous week from that of a year ago. For the four weeks ended Nov. 11, 1950, sales showed a rise of 4% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York last week, stimulated by holiday sales, advanced an estimated 5% above that of the like period in 1949.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 11, 1950, declined 2% from the like period of last year. In the preceding week a decrease of 8% was registered from the similar week of 1949. For the four weeks ended Nov. 11, 1950, no change was registered over a year ago, and for the year to date, volume advanced 1% from the like period of last year.

Unlimited Income Taxation Opens Flood Gates to Govt. Extravagance!

Thomas H. Beacom, Vice-President of First National Bank of Chicago, points out taxing powers granted by 16th Amendment have already led to severe limitation of individual freedom and have destroyed concept of "taxation for revenue only"

Thomas H. Beacom

In discussing the topic, "Are the Times Out of Joint?" before the Mid-Continent Trust Conference of the American Bankers Association at St. Louis, Mo., on Nov. 9, Thomas H. Beacom, Vice-President of the First National Bank of Chicago, Ill., warned, because of the unlimited power given Congress under the 16th Amendment to tax individual incomes, not only is our personal freedom diminished, but also waste and squandering of national resources is encouraged by permitting Government to undertake more than can be accomplished. Commenting on the effects of progressive increases in income taxes, since the 16th Amendment was adopted in 1913, Mr. Beacom pointed out that the results are "a far cry from the old principle of assessing taxes for revenue only. Under that concept, Government made some effort to gauge its proper needs and to collect on a basis of equality among the taxpayers what was needed. Now the temptation is great in Congress to determine what the 'traffic will bear' and then to levy taxes for the purpose of providing not merely for the general security of the nation but for the economic security of the individuals who comprise the nation.

"I should like to make clear for the record," Mr. Beacom continued, "that I am not protesting that the times are out of joint merely because we are paying high taxes.

"While I do not enjoy having my income drained away for foreign wars, I recognize the necessity for war measures and I know, as you do, that when a mad dog is loose in the neighborhood it is wise to spend money for a protective fence. I am concerned about the rates of tax because the end is not in sight.

"It is a sad commentary on the sense of mankind that we spend for armament to destroy first Europe and now Korea, and then turn around and spend as much again to rebuild what we and others have destroyed. Like you, I am willing to pay my full share of what must be spent to save our way of life. In return, however, I think we are entitled to assurances from our government that:

"(1) We will not squander our resources by undertaking more than we can accomplish;

"(2) We will suspend some of the objectives of the welfare state for the time being and let new subsidies and new dams in the West wait;

"(3) We will hold down the public debt and pay for our urgent needs as we go along;

"(4) When these days are past we will not follow Great Britain by nationalizing industry in this country."

"It must be obvious," Mr. Beacom concluded, "that the self-restraint on the part of taxing authorities is a great need. If Congress kills the goose that has laid our golden eggs, the socialists and State planners will jump at the chance to take over.

"It is time to reexamine our faith in the fundamental truths by which we in this country have traditionally lived."

Securities Salesman's Corner

By JOHN DUTTON

"Oh Lord, help me to keep my big mouth shut unless I have a good reason to open it!" This is a little memo that a friend of mine has over his desk. I asked him about it one day, and he told me that one of his worst failings was that he ofen spoke impulsively. He was a very nice fellow and he took the attitude that every one else was just as understanding as he. He told me he believed that he could go through life blurting out the first thing that came into his head, and because he thought that his statements were always meant in a kindly way, that no harm could be done.

Usually no harm was done, but he finally decided that he was being marked by his friends as a **talker.** He was amazed to find out that, although his conversation was always discreet when it involved keeping confidences, people instinctively shied away from him when it came to handling confidential matters. If any business is personal, it is the securities business. You probably know more about people's affairs than anyone in your community except the doctor, and possibly some lawyers. That is why it pays to be a good listener and to always stress the importance of your confidential relationship with your clients—even (should the opportunity arise) to those who are not clients.

Here is a sample of how this will work out to your advantage in prospecting and in using radiation. I know of a case where a salesman met a man of modest means and he could not do any business with him. However, this man had a brother and he kindly offered the brother's name as a prospect. He insisted, though, that this salesman should not mention the sources of the lead. In a few days the brother was contacted over the telephone and was told that he had been referred to this salesman as one who might be interested in going over some suggestion he had made to a friend, **but that the friend asked that he not mention his name.** The salesman was polite, and said that although it was putting both of them at a disadvantage, that he would prefer not to call if it meant breaking this confidence. The brother was agreeable and they made an appointment.

After the interview was successfully concluded and the sale was made, the brother said, "Why not stay for lunch, my brother **who sent you** to see me will be here; in fact, he is at the front door now." This brought a good laugh all around. The new customer then said, "The reason I told you more than I have told hardly anyone in this town about my private affairs is that I tested you. My brother told me that he had a good talk with you and that he thought you could give me some good suggestions. However, he also told me that he had asked you to keep the source of your information about me confidential. Well, you've lived up to it all right, and I think I can give you a few more good prospects." This he proceeded to do, also insisting that the salesman not mention his name, etc.

Sometimes we don't realize that we can learn so much from others **just by asking.** When we ask questions we flatter the other fellow—when we make statements we have the stage. If we **ask,** we make one-sentence remarks; then we listen. That keeps us from overtalking, and it is amazing how much more business we can do if we ask for prospects. Ask about a man's problems—ask about his investment objectives—ask about his health—his children—his securities—his ideas. When we know the answers, we can help him solve these problems. When he **knows we are not talkers** he will talk. Talking is like any other mental and physical activity: we gain momentum as we go along. Sometimes too much so!

The best instance I can remember was the time I had an order (and I think I had worked for about six months on that account), but when the man was writing out a check I started to talk again. He said: "Look here, how can I write this check correctly while you are talking. Now that I've bought those bonds, give me a chance to pay for them."

"Oh Lord, help me to keep my big mouth shut, until I have something worthwhile to say!"

F. V. Nixon With Pacific Coast Secs.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Francis V. Nixon has become associated with Pacific Coast Securities Company, 519 California Street. Mr. Nixon has recently been with Edgerton, Wykoff & Co. and Gross, Rogers & Co. Prior thereto he conducted his own investment business in Los Angeles.

O. C. Johnson, Inc. Formed in Spokane

SPOKANE, Wash.—O. C. Johnson has formed O. C. Johnson, Inc. with offices in the Eagle Building to engage in the securities business. Mr. Johnson in the past was a partner in Edwin Lavigne & Co. and conducted his own investment business in Spokane, Wash. and Greenville, S. C.

H. G. Schmitt Opens

FLUSHING, N. Y.—Harold G. Schmitt has opened offices at 73-18 186th Street to engage in a securities business. He was previously with John G. Perry & Co.

J. O. Scott Opens

ORANGE, Calif.—John O. Scott is engaging in a securities business from offices at 488 South Glassell Street.

R. J. Vosburgh Opens

Mount Vernon, N. Y.—R. J. Vosburgh has opened office at 211 North Fulton Avenue to engage in the securities business.

Raphael Co. Opens

BROOKLYN, N. Y.—Raphael Hashinsky is engaging in a securities business from offices at 237 Nassau Avenue under the firm name of Raphael Company.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Nov. 26	102.7	102.7	102.6	78.2
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 26	1,980,800	1,980,800	1,978,900	1,441,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Nov. 11	5,910,700	5,896,450	5,861,750	5,185,150
Crude runs to stills — daily average (bbls.)	Nov. 11	†6,018,000	6,117,000	6,124,000	5,127,000
Gasoline output (bbls.)	Nov. 11	19,466,000	20,156,000	20,090,000	17,686,000
Kerosene output (bbls.)	Nov. 11	2,220,000	2,309,000	2,366,000	2,092,000
Gas, oil, and distillate fuel oil output (bbls.)	Nov. 11	8,466,000	8,747,000	8,874,000	6,849,000
Residual fuel oil output (bbls.)	Nov. 11	8,636,000	8,454,000	8,426,000	7,814,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 11	105,465,000	104,356,000	103,807,000	103,577,000
Kerosene (bbls.) at	Nov. 11	29,003,000	29,115,000	28,555,000	27,622,000
Gas, oil, and distillate fuel oil (bbls.) at	Nov. 11	86,721,000	86,886,000	80,959,000	92,117,000
Residual fuel oil (bbls.) at	Nov. 11	45,140,000	44,689,000	42,826,000	68,527,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 11	839,612	862,184	888,559	635,823
Revenue freight received from connections (number of cars)	Nov. 11	703,746	722,248	727,383	514,528
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 16	$214,949,000	$101,916,000	$260,750,000	$217,758,000
Private construction	Nov. 16	118,639,000	39,831,000	183,265,000	117,449,000
Public construction	Nov. 16	96,310,000	62,085,000	77,485,000	100,309,000
State and municipal	Nov. 16	72,965,000	52,924,000	72,659,000	87,657,000
Federal	Nov. 16	23,345,000	9,161,000	4,826,000	12,652,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 11	11,000,000	*11,410,000	11,500,000	7,183,000
Pennsylvania anthracite (tons)	Nov. 11	787,000	587,000	1,081,000	1,264,000
Beehive coke (tons)	Nov. 11	155,000	*152,400	142,100	3,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 11	342	315	322	318
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 18	6,728,334	6,574,084	6,502,540	5,644,435
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Nov. 16	170	135	165	183
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 14	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Nov. 14	$49.69	$49.69	$49.36	$45.88
Scrap steel (per gross ton)	Nov. 14	$40.75	$41.67	$40.67	$29.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 15	24.200c	24.200c	24.200c	18.200c
Export refinery at	Nov. 15	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Nov. 15	136.000c	155.000c	111.375c	95.000c
Lead (New York) at	Nov. 15	17.000c	17.000c	16.000c	12.750c
Lead (St. Louis) at	Nov. 15	16.800c	16.800c	15.800c	12.550c
Zinc (East St. Louis) at	Nov. 15	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Nov. 21	101.68	101.65	101.48	104.45
Average corporate	Nov. 21	115.43	115.43	115.43	115.24
Aaa	Nov. 21	119.61	119.82	119.61	121.25
Aa	Nov. 21	118.80	118.80	118.60	119.41
A	Nov. 21	114.85	114.66	114.85	114.46
Baa	Nov. 21	109.24	109.06	109.06	106.92
Railroad Group	Nov. 11	111.81	111.62	111.44	109.42
Public Utilities Group	Nov. 21	115.82	115.82	115.82	117.00
Industrials Group	Nov. 21	119.20	119.00	119.00	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Nov. 21	2.37	2.37	2.39	2.17
Average corporate	Nov. 21	2.88	2.88	2.88	2.89
Aaa	Nov. 21	2.67	2.66	2.67	2.59
Aa	Nov. 21	2.71	2.71	2.72	2.68
A	Nov. 21	2.91	2.92	2.91	2.93
Baa	Nov. 21	3.21	3.22	3.22	3.34
Railroad Group	Nov. 21	3.07	3.08	3.09	3.20
Public Utilities Group	Nov. 14	2.86	2.86	2.86	2.80
Industrials Group	Nov. 21	2.69	2.70	2.70	2.66
MOODY'S COMMODITY INDEX	Nov. 21	482.1	487.4	467.8	343.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 11	199,278	321,394	231,419	182,831
Production (tons)	Nov. 11	233,487	236,142	237,498	207,837
Percentage of activity	Nov. 11	101	102	102	94
Unfilled orders (tons) at	Nov. 11	739,323	774,891	752,556	444,302
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 17	139.2	138.4	137.5	125.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Nov. 4	32,430	35,054	39,129	26,648
Number of shares—Customers' total sales	Nov. 4	956,170	1,058,610	1,182,139	784,627
Dollar value	Nov. 4	$41,629,903	$44,640,123	$52,921,967	$31,314,619
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 4	28,175	36,060	42,548	29,061
Customers' short sales	Nov. 4	282	276	314	166
Customers' other sales	Nov. 4	27,793	35,784	42,234	28,895
Number of shares—Customers' total sales	Nov. 4	808,505	1,044,301	1,233,440	787,732
Customers' short sales	Nov. 4	14,012	10,451	12,011	6,206
Customers' other sales	Nov. 4	794,493	1,033,850	1,221,429	781,526
Dollar value	Nov. 4	$32,513,266	$40,534,080	$48,142,457	$27,614,340
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 4	286,510	326,910	396,460	273,210
Short sales	Nov. 4	------	------	------	------
Other sales	Nov. 4	286,510	326,910	396,460	273,210
Round-lot purchases by dealers—					
Number of shares	Nov. 4	358,880	347,990	379,880	273,020
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 14	171.1	170.0	168.7	151.6
Farm products	Nov. 14	183.1	181.3	177.9	157.1
Grains	Nov. 14	171.6	172.6	163.0	154.1
Livestock	Nov. 14	223.0	225.5	223.8	187.8
Foods	Nov. 14	176.5	173.6	173.9	159.6
Meats	Nov. 14	240.7	237.6	240.9	213.2
All commodities other than farm and foods	Nov. 14	162.7	162.2	160.8	144.9
Textile products	Nov. 14	165.4	*164.4	162.2	137.9
Fuel and lighting materials	Nov. 14	135.4	135.3	135.4	129.8
Metals and metal products	Nov. 14	180.1	180.6	177.8	167.4
Building materials	Nov. 14	217.8	*218.2	221.4	189.9
Chemicals and allied products	Nov. 14	135.1	133.7	131.6	115.8

*Revised figure. †Includes 498,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN ZINC INSTITUTE, INC.—Month of October:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	79,997	71,057	64,399
Shipments (tons of 2,000 lbs.)	81,156	75,241	51,761
Stocks at end of period (tons)	9,108	10,267	97,666
Unfilled orders at end of period (tons)	64,436	69,062	34,808
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100 — As of September 15:			
All items	173.8	173.0	169.6
All foods	208.5	209.0	204.2
Cereals and bakery products	176.5	175.5	169.7
Meats	257.8	257.5	245.6
Dairy products	185.2	182.7	185.3
Eggs	193.0	183.1	232.6
Fruits and vegetables	184.6	194.7	199.8
Beverages	336.7	328.8	211.0
Fats and oils	159.0	158.9	148.3
Sugar and sweets	187.5	187.7	176.8
Clothing	190.5	185.9	187.2
Rent	124.8	*124.6	121.2
Fuel, electricity and refrigerators	141.8	140.9	137.0
Gas and electricity	97.0	97.0	97.1
Other fuels	196.5	194.4	185.9
Ice	148.0	147.4	141.5
House furnishings	195.4	189.3	185.6
Miscellaneous	158.8	158.1	155.2
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE—As of Nov. 1 (in thousands)			
Corn, all (bushel)	3,105,436	3,117,967	3,377,790
Wheat, all (bushel)	1,010,069	1,010,069	1,146,463
Winter (bushel)	740,537	746,537	901,668
All spring (bushel)	269,532	269,532	244,795
Durum (bushel)	33,457	33,457	38,864
Other spring (bushel)	236,075	236,075	205,931
Oats (bushel)	1,483,975	1,483,975	1,322,924
Barley (bushel)	299,954	299,954	238,104
Rye (bushel)	22,509	22,509	18,697
Buckwheat (bushel)	4,740	4,817	5,184
Flaxseed (bushel)	35,224	35,224	43,664
Rice, (100 pound bag)	38,022	36,776	40,113
Sorghum grain (bushel)	196,344	184,091	152,630
Cotton (bale)	9,945	9,869	16,128
Hay, all (ton)	107,870	107,870	99,305
Hay, wild (ton)	12,657	12,657	12,296
Hay, alfalfa (ton)	41,702	41,702	38,546
Hay, clover and timothy (ton)	29,395	29,395	24,657
Hay, lespedeza (ton)	7,987	7,987	8,571
Beans, dry edible (100 pound bag)	16,419	15,916	21,554
Peas, dry field (bag)	2,902	2,902	3,267
Soybeans for beans (bushel)	281,133	275,256	222,305
Peanuts (pound)	1,771,320	1,676,890	1,875,825
Potatoes (bushel)	430,591	426,782	401,962
Sweetpotatoes (bushel)	59,491	59,653	54,232
Tobacco (pound)	2,013,165	1,950,124	1,970,376
Sorgo sirup (gallon)	6,226	------	6,012
Sugarcane for sugar and seed (ton)	7,260	7,300	6,796
Sugarcane sirup (gallon)	9,795	------	11,770
Sugar beets (ton)	13,549	13,262	10,197
Broomcorn (ton)	26	26	44
Hops (pound)	58,288	58,288	50,730
Apples, commercial crop (bushel)	120,499	120,104	133,742
Peaches (bushel)	52,407	52,407	74,818
Pears (bushel)	30,804	30,657	36,404
Grapes (ton)	2,539	2,520	2,662
Cherries (12 states) (ton)	231	231	250
Apricots (3 states) (ton)	198	198	148
Cranberries (5 states) (barrels)	968	941	840
Pecans (pound)	110,688	109,731	128,174
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of September:			
Death benefits	$115,933,000	$131,433,000	$115,711,000
Matured endowments	35,834,000	38,190,000	36,027,000
Disability payments	8,542,000	8,658,000	7,641,000
Annuity payments	19,077,000	21,090,000	19,856,000
Surrender values	52,607,000	57,024,000	49,674,000
Policy dividends	48,456,000	45,943,000	47,329,000
Total	$280,449,000	$302,338,000	$276,238,000
METAL OUTPUT (BUREAU OF MINES) — Month of September:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	76,645	*80,199	‡62,729
Gold (in fine ounces)	229,852	*224,067	‡165,982
Lead (in short tons)	34,072	*36,015	‡34,159
Silver (in fine ounces)	3,414,925	*3,739,878	‡2,869,579
Zinc (in short tons)	54,269	*56,114	‡49,433
MONEY IN CIRCULATION—TREASURY DEPT. As of August 31 (000's omitted)	$27,118,010	$27,010,000	$27,393,000
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Oct.	£44,158,000	£7,825,000	£8,537,000
NEW YORK STOCK EXCHANGE—As of Oct. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,351,480	*$1,285,016	$782,944
Credit extended to customers	123,341	122,232	71,613
Cash on hand and in banks in U. S.	361,264	338,655	288,829
Total of customers' free credit balances	771,484	*738,698	585,517
Market value of listed shares	88,524,810	88,673,390	72,630,605
Market value of listed bonds	118,416,553	118,860,724	132,221,476
Member borrowings on U. S. Govt. issues	195,965	204,162	152,088
Member borrowings on other collateral	687,679	678,754	419,724
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of October:			
Net sales	------	------	$1,659,950
Net purchases	$5,848,750	$5,017,500	------
U. S. GOVT. STATUTORY DEBT LIMITATION As of Oct. 31 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	256,936,999	257,215,671	256,777,727
Guaranteed obligations not owned by the Treasury	21,761	19,862	27,681
Total gross public debt and guaranteed obligations	$256,958,761	$257,235,533	$256,805,409
Deduct—Other outstanding public debt obligations not subject to debt limitation	711,040	714,012	752,571
Grand total outstanding	$256,747,720	$256,521,520	$256,052,837
Balance face amount of obligations issuable under above authority	18,752,279	18,478,479	18,947,162

*Revised. ‡Monthly average 1949.

Continued from page 16

Ripping the Seams Of Our Economy

laboratories and our skilled technicians to design such story book miracles as a 'portable' landing craft for aircraft. We did so. It called upon our management to use all its experience, ingenuity, efficiency and know-how, to build, to man and to operate vast new steel-making plants for the government. We did so. And the government sang our praises.

"But when the war was over, all this was conveniently forgotten in Washington. The government no longer acclaimed us. It belabored us severely—not because we were too big—*But Because We Were Not Big Enough.* It denounced us because we could not produce instantly all the steel that was needed to meet the pent-up demands of a world that had been starving for civilian goods for four long years. It urged us to expand our plants and facilities. And we did so.

"Today, this too is forgotten, but the government continues to attack us. It now appears that we are too big, and that we have been all the time. So history repeats itself. After World War I, those who had produced the weapons that defeated our enemies were denounced as 'Merchants of Death.' Today, after World War II, they are branded as 'Oligopolists.'

"Now it seems to me that not even the government can have it both ways. If bigness is necessary in War, it is certainly desirable in the uneasy peace of this Atomic Age. If bigness is a virtue in times of security, it can hardly be a vice in times of plenty."

I think it is about time that the people's eyes were opened to a violent antithesis. On the one hand is the mendacity of the Demagogues and their crackpot policies. On the other is the practical acumen of our industrial leaders. If one were to demand any sort of proof of the inherent genius of American initiative and enterprise, of the indestructibility of the system—and of the capacity of the American businessman to absorb punishment—he need look no further than to the ability of business and industry to rise to any occasion and to meet any and all productive demands made upon it, despite the obstacles that the perverse ingenuity of government can put in its way.

Price-Support Sapping Our Agricultural Economy

A third hypothesis is that certain occupational groups should have special consideration, including a financial bonus. This is a slice of the national income bestowed upon them by Federal largess, a bonus taken out of the pockets of the rest of us through taxes and the higher prices that we are forced to pay for foodstuffs. I refer, of course, to the Government's Farm Price-Support Program, a bounty system which is based on a fear not of having too little, but of having too much. This quixotic attempt to suspend the law of supply and demand has always had the blessing of the bureaucrats, including the benison of Henry Wallace, the man who finally managed to plow himself under.

It is true that the Price-Support Program has sapped the foundations of our agricultural economy; true that farmers have been producing more than the American capacity to consume; true that the government has sold potatoes for less than the cost of the bags they came in; true that Price-Support is responsible for almost one-quarter of the current national deficit; true that it one of the most potent inflationary threats. Then, why is it continued? Well, it is also true that if aid to the farmer were withdrawn and farm prices were permitted to settle to their normal level, the political repercussions would probably blast the New Deal-Fair Deal right out of power, a prospect which the bureaucrats view with no little apprehension. You must remember that much as the bureaucrat loves his fellow man, his first love is his job. He is his own best friend.

Capital and Labor Relations

Still another hypothesis — and this is really a *sine qua non* of the new economic dispensation—is that an impenetrable barrier separates the interests of capital from those of labor. To change the figure a bit, capital, as I have already indicated, is cast in the role of Simon Legree, while labor, of course, is poor old Uncle Tom.

Here again, the New Deal-Fair Deal philosophy denies demonstrable facts and flies in the face of principles. The interest of capital and labor are not poles apart, despite the constant yammering of the economic Mahatmas. On the countrary, the two have a community of interests which complement each other. Far from being natural enemies, capital and labor are natural partners, uniting their talents, skills and resources in the field of production for their mutual benefit and for the common good.

Of course, capital and labor have their differences, as what partners have not? Of course there are difficulties, as there are in any kind of endeavor where human beings work together. There always have been and there always will be. But anybody who tries to tell us that all the fault is on the one side or the other is either abysmally ignorant of industrial history, or is a special pleader who will not spoil his story for the want of a few facts.

The culpability of the special pleaders lies in their deliberate playing of one class against another; in their deliberate and constant emphasis on the areas of disagreement between the two instead of the far greater and far more important areas of agreement between the man who invests his labor and the man who invests his savings in business and industry.

As a footnote to this observation, it is worth mentioning that if we are gulled into accepting the class-against-class theory about capital and labor, it is pretty hard to choose the banner under which a very considerable portion of our population should be enlisted. Why? Because with enterprise and initiative being what they are in the United States, the same person is more often than not worker and capitalist. He is likely to own his own home, to have one or more insurance policies, and a savings account laid by against the proverbial rainy day. If he isn't an investor, I don't know what you would call him. Or, let's look at it this way: Half of the families in the United States own, or share in the ownership of, a business. Forty-five of the largest manufacturing corporations and businesses have a total of almost 3,000,000 shareholders. About one American adult in six puts his savings into business. It seems to me then, that the line of demarcation which the economic Mr. Fix-Its try to draw between capital and labor is largely artificial. The sooner those who are being victimized by it recognize it for what it is—bleeding heart propaganda—the sooner they will quit working against their own best interests.

Economic Security vs. Economic Independence

A theme common to most of the manifestations of bureaucratic political and economic thinking is the substitution of the economic security of the individual for the economic independence of the individual. The last thing in the world the bureaucrat wants is a nation of independent men and women. He wants to jockey the citizen into position where he must come, hat in hand, asking to be made a beneficiary of the elaborate socialistic scheme of welfare legislation that not only affects his life "From The Cradle To The Grave," but also helps to perpetuate the bureaucratic regime whose largess supports him.

Now there is no gainsaying the fact that government has an obligation to help those of its citizens who because of mental or physical handicaps cannot help themselves. Neither do I know of any one who objects to governmental measures that cushion the rough spots caused by severe economic dislocations. But when so-called welfare legislation is carried to the extreme that it removes initiative from its recipients, robs them of any desire to stand on their own two feet, and destroys their self-respect, we are coming perilously close to that theory of government which makes the State man's master and not his servant; economic security is a poor substitute for economic independence. The slave laborer in a Russian prison camp is secure; goodness knows, no one in the world is more secure than he is. He is fed, clothed, and housed; also—he can't escape his chains. Neither can the American who gives up his birthright of independence for the crumbs of subsistence that the planners of the Welfare State are willing to toss in his direction.

Bureaucracy vs. The People

Finally, implicit in the over-all attitude of a bureaucracy is the assumption that only the bureaucrat knows what is best for the people, and that the entire executive and legislative machinery of the government exists solely for the purpose of imposing his will upon them. The bureaucrat, to put it most charitably, is an opinionated fellow. You and I would be fortunate indeed if we could be as sure of anything as he is of everything. He might well say, with Gilbert and Sullivan's Lord Chancellor:

"The Law is the true embodiment of everything that's excellent; it has no kind of fault or flaw, and I, My Lords, embody the Law."

Now if a study of the history of government, and particularly of the drift to dictatorship—reveals anything at all, it is that power is intoxicating; that power, in a manner of speaking, grows on what it feeds on; that power, once assumed, is reluctantly surrendered, if it is ever surrendered at all.

I make this observation as preliminary to a brief comment on the sweeping powers that Congress gave the Administration when the Korean incident developed early last summer. Theoretically, Congress was justified. Government must have more power in time of war than in time of peace, because strategic materials must be allocated, credit must be kept in hand, priorities must be established, and so one. Nevertheless, controls concentrated in the hands of a few men may do as much harm as good. During World War II, for example, food rationing kept prices down, but it also drove many foodstuffs into the black market. The wise course, it seems to me, is not to prevent people from getting food, but, if necessary, to produce more of it. In so far as labor is concerned, compulsion does not automatically increase industrial output. On the contrary, we know from experience, the removal of incentives, leads to slowdowns, sit-downs, and walk-outs.

Congress took a dangerous step when it gave the Administration such broad authority—dangerous and not justifiable, even on the grounds of emergency. The suspicion of many thoughtful persons is that a certain element in the administration, aided and abetted by the hangers-on—the fellow-travelers and others of that stripe —are only too eager to regiment our economy still further, and will use any means, including war, or the threat of war, to gain their end.

You may remember that in mid-July President Truman asked for broad powers over production. Sweeping as his requests were, Congress actually gave him more than he asked for. Mr. Truman now has the authority to control wages, prices, production, distribution, and credit at his own discretion. The supposition is, and I quote Mr. Truman's speech of July 19, "To prevent inflation and runaway prices we shall have to impose certain restrictions upon ourselves."

Look who's talking! Such a statement comes with ill grace from Mr. Truman, because in this instance restrictions, like charity, should begin at home. Inflation must be laid at the door of deficit financing, the spending of astronomical sums on all sorts of socialistic and semi-socialistic measures. The way to stop inflation—and the Administration knows it —is not to fix prices, but to stop deficit financing. You may say, "But we can't jeopardize the Defense Program." The answer is that we don't have to. But we can and should call a halt to the quixotic expenditures, so dear to the hearts of the planners, for projects that are turning the United States into a Welfare State.

Dangers of Excess Profits Taxes

Right now, of course, candidates for Congress are asking us to endorse their alleged wisdom in passing an excess profits tax or higher corporate income tax bill. These gentlemen know their politics, but not their economics. The excess profits tax did not work well in World War II, nor will it work well now, for the simple reason, as Beardsley Ruml has said, that "Nobody has ever been able to devise a good one." The politicians also choose to ignore —if they know—the true nature of corporate taxes, for which the corporation is only a collector, a middleman between the ultimate taxpayer—the consumer—and the government. Right now, we want more production and more tools of production, and this comes in large part from corporate net earnings after taxes. Why kill the goose that lays the golden eggs?

The United States is undertaking a vast armament program, but, large as it is, it will not place an undue strain upon the productive capacity of our manufacturing industries which, according to Mr. Truman himself, is "60% greater than it was ten years ago, when the Axis dictators threatened the world." It seems to me that if government is aware—as it certainly should be by now—of the tremendous potentialities of American industry, it would assist and encourage industry to provide a large part of our military needs out of increased production, instead of contenting itself with merely diverting goods and services from civilian to military use. Such a suggestion, however, would not meet with the approval of the bureaucratic planners who, having been given the authority to control, intend to use it right up to the hilt.

Our economy is sound — the soundest in the world. It is the economic thinking of the fellow-travelers, the crackpots, the parlor pinks, the reformers, and the welfare-staters that is so unsound that it is coming apart at the seams. On the other hand, only an economy with great vitality, and one right in its fundamentals, could have survived the onslaughts made upon ours during the past two decades. And please note that it not only survived but took on new responsibilities: It helped save the world from the Axis powers, and then without losing stride met pent-up civilian demands for goods.

This is the economy which the bureaucrats would destroy; an economy which since 1945 built four million new homes, produced twenty million new cars and trucks, built almost two billions dollars worth of new roads and boosted its steel production to one hundred million tons a year, and turned out $89 billion worth of clothing and convenience goods. Meanwhile, that economy was not only feeding us, but also a good part of the rest of the world, while having plenty left over.

As I said in the beginning of my talk, I seem to be a little old-fashioned politically and economically. That is why, when I look at what we have, and at what the bureaucratic advocates of the Welfare State want to give us, I still say, "Make Mine American."

Joins Fred Blake Staff

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Harry R. Srole is now associated with Fred D. Blake & Co., 215 West Sixth Street. He was formerly with Albert E. Van Court and Floyd A. Allen & Co.

Crowell, Weedon Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Fred J. Radwick has become connected with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Dempsey-Tegeler & Co.

Joins Holton, Hull

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Francis J. McKeadney has joined the staff of Holton, Hull & Co., 210 West 7th Street, members of the Los Angeles Stock Exchange. Mr. McKeadney was formerly with Floyd A. Allen & Co. and John B. Dunbar & Co.

Pacific Co. Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Charles W. Schmipff is now with Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange.

Staats Adds Two

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Ross M. Campbell and E. Brice Draper have been added to the staff of William R. Staats Co., 640 South Spring Street, members of the Los Angeles and Midwest Stock Exchange.

With Wagenseller Durst

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Edgar Wilson Smith has joined the staff of Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange.

Two With Mitchum, Tully

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Thomas S. Barlowe and Arthur G. Plots have become affiliated with Mitchum, Tully & Co., 650 South Spring Street.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

American Cladmetals Co., Carnegie, Pa.
Oct. 19 (letter of notification) 62,000 shares of common stock (par $1). **Price**—At market (about $1.12½ per share). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To Charles R. Anthony, Chairman of the Board, who is the selling stockholder.

American Gas & Electric Co.
Nov. 9 filed 116,662 shares of common stock (par $10), to be offered in exchange for common stock of Central Ohio Power & Light Co. on the basis of 72/100ths of a share of American Gas common stock for each Central Ohio common share. **Underwriter**—None.

American Investment Co. of Illinois (11/30)
Nov. 10 filed 97,121 shares of common stock (par $1), to be offered common stockholders of record Nov. 29 at rate of one share for each 20 shares owned; rights expected to expire Dec. 13. **Price**—To be filed by amendment. **Underwriters** — Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. **Proceeds**—To retire preferred stock and for general corporate purposes.

American Rock Wool Corp. (12/6)
Nov. 15 filed 90,000 shares of common stock (par $5), of which 52,263 shares are to be offered by the company and 37,737 shares by certain stockholders. **Price**—To be filed by amendment. **Underwriter**—Bacon, Whipple & Co., Chicago, Ill. **Proceeds**—To company to be used to retire notes and the balance added to general funds. **Business**—Manufactures and sell thermal installation.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). Proceeds—To be applied to (a) redemption at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 sares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. Bids—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

Arwood Precision Casting Corp.
Nov. 3 (letter of notification) 1,320 shares of common stock (no par) being offered to stockholders of record Nov. 10 on basis of one share for each 6.6 shares held; rights to expire Nov. 24. **Price**—$40 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—70 Washington St., Brooklyn 1, N. Y.

• Atlantic Oil Corp., Tulsa, Okla.
Nov. 13 (letter of notification) 48,046 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—Continental Corp., Tulsa, Okla. **Proceeds**—To purchase oil and gas properties.

Bell Co., Worcester, Mass. (11/28)
Nov. 10 filed 100,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—To certain selling stockholders. **Business** — Manufacturers of worsted fabrics.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). Price—To be filed by amendment. Underwriter—H. M. Byllesby & Co., Inc., Chicago, Ill. Proceeds — For drilling and development expenses and for working capital.

Birmingham (Ala.) Fire Insurance Co.
Oct. 17 (letter of notification) 10,000 shares of common stock to be offered to present common stockholders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham, Ala.

• Brown Trailer Co., Denver, Colo.
Nov. 13 (letter of notification) 1,900 shares of common stock to be offered to trailer distributors. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To increase capital of company and to finance time sales.

Carolina Casualty Insurance Co. (N. C.)
Oct. 2 (letter of notification) 100,000 shares of class B (non-voting) common stock (par $1) offered to stockholders on basis of one share for each 2½ shares held on Nov. 1; rights expire on Dec. 14. **Price**—$2.50 per share. **Underwriter**—None. **Proceeds**—To retire 5,784 shares of preferred stock (cost $121,464) and to increase capital stock and surplus.

Carolina Telephone & Telegraph Co.
Oct. 26 filed 20,825 shares of common stock now offered to stockholders of record Nov. 22 on basis of one new share for each five shares held; rights to expire on Dec. 12. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To repay bank loans the proceeds of which were used for construction program. Statement effective Nov. 17.

Central Illinois Public Service Corp. (11/29)
Nov. 13 filed 267,600 shares of common stock (par $10) to be offered to common stockholders of record on or about Nov. 17 at rate of one share for each 10 shares held; rights to expire Dec. 12. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—For construction program.

Central Illinois Public Service Corp. (12/5)
Nov. 13 filed $6,000,000 of sinking fund debentures due 1970. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kuhn, Loeb & Co.; Glore, Forgan & Co.; Blyth & Co., Inc., Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co., Inc. **Proceeds**—For construction program. **Bids**—To be received prior to 11:30 a.m. (CST) on Dec. 5 in Room 2154, 20 No. Wacker Drive, Chicago, Ill.

Central Power & Light Co. (11/28)
Oct. 23 filed $10,000,000 of first mortgage bonds, series C, due Nov. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc., Harriman Ripley & Co. Inc. and Stone & Webster Securities Corp. (jointly); Lehman Brothers and Glore, Forgan & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly). **Proceeds**—To repay $750,000 of bank loans and to reimburse the company in part for capital expenditures. **Bids**—To be received up to 11:30 a.m. (CST) on Nov. 28 at office of company in Chicago, Ill. Statement effective Nov. 17.

• Colonial Acceptance Corp. (12/4-9)
Nov. 20 filed $1,500,000 junior subordinated sinking fund debentures due Dec. 1, 1958, and 30,000 shares of common stock (par $1), to be offered in units of $500 of debentures and 10 shares of stock. **Price**—$500 per unit. **Underwriters**—Straus & Blosser; and Sills, Fairman & Harris; both of Chicago, Ill. **Proceeds**—To reduce bank loans.

• Composite Stock Fund, Inc., Spokane, Wash.
Nov. 16 filed 189,500 shares of capital stock (par $1). **Price**—At net asset value per share, plus distribution charge. **Underwriter** — Murphey Favre, Inc., Spokane, Wash. **Proceeds** — For investment. **Business**—Open-end investment company.

Consumers Cooperative Association, Kansas City, Mo.
Nov. 14 filed $1,000,000 of 5-year 3½% certificates of indebtedness and $2,000,000 of 10-year 4½% certificates of indebtedness to be offered to members of the Association and "to others." **Underwriter**—None. **Proceeds**—To be added to general funds. **Business**—Farmers' cooperative wholesale purchasing association of the federated type. **Price**—At 100 issuable in multiples of 100.

Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
Sept. 28 filed 500,000 shares of common stock to be sold to cooperative members. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To reduce obligation to Cooperative G.L.F. Holding Corp. **Business**—Farm cooperative. Statement effective Nov. 10.

Cooperative G. L. F. Holding Corp.
Sept. 28 filed 25,000 shares of 4% cumulative preferred stock to be sold to patrons of Grand League Federation Exchange. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank debt. **Business**—Property holding and financing instrumentality for G.L.F. Exchange, farm cooperative. Statement effective Nov. 10.

Culver Corp., Chicago, Ill.
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price** — To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

• Dansker Realty & Securities Corp., N. Y. City
Nov. 20 filed 300,000 shares of 6% cumulative convertible preferred stock (par $5) and 300,000 shares of class B common stock (par 35 cents) to be offered in units of one preferred and one class B share "on a best-efforts basis." **Price**—$6 per unit. **Underwriter**—Dansker Bros. & Co., Inc., New York. **Proceeds**—For working capital. Expected after Dec. 15.

Davison Chemical Corp. (11/28)
Nov. 7 filed 128,533 shares of common stock (par $1) to be offered to common stockholders of record November 28 at the rate of one share for each four shares held; rights to expire Dec. 12. **Price**—To be supplied by amendment. **Underwriters**—Alex. Brown & Sons of Baltimore, Md., and Kidder, Peabody & Co., New York. **Proceeds**—For expansion and improvement program.

• Deardorf Oil Corp., Oklahoma City, Okla.
Nov. 17 (letter of notification) 20,040 shares of common stock (par 10c), to be offered at rate of 40 shares for each Abbie-Conner interest now held. **Price**—$25 for each 40 shares. **Underwriter**—Tellier & Co., New York. **Proceeds**—To acquire a fractional undivided working interest in the Abbie-Conner tract.

Diversey Corp., Chicago, Ill. (11/28)
Nov. 10 filed 143,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—F. Eberstadt & Co., Inc., who recently acquired a 75% stock interest in company from Victor Chemical Works. **Business**—Chemical specialties.

Dow Chemical Co. (1/3/51)
Nov. 10 filed 200,000 shares of common stock (par $15), of which a maximum of 125,000 shares will be offered to common stockholders of record Dec. 21, 1950 at rate of 1 share for each 50 shares held, the remaining 75,000 shares to be offered for subscription by employees up to 10% of their annual wages on a payroll deduction plan. Both offerings will terminate on Jan. 29, 1951 and are expected to be made on Jan. 3, 1951. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For working capital.

Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock offered to stockholders on a pro rata basis; rights expire Dec. 15, 1950. **Price**—At par (40 cents per share). **Underwriter**—None. **Proceeds**—To pay creditors' claims and for working capital. **Address**—P. O. Box 2215, Los Angeles, Calif.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

• Earl Russell Marts, Dallas, Tex.
Nov. 13 (letter of notification) full oil and gas leases for 507 acres in Travis County, Tex. **Price**—$15 per acre. **Underwriter**—None. **Proceeds**—To drill for oil and purchase leases. **Office**—National City Bldg., Dallas, Tex.

Eastern Air Lines, Inc., New York
Nov. 1 filed 100,000 shares of common stock (par $1), to be offered to employees, excluding officers and directors. **Price**—$13 per share. **Underwriter**—None. **Proceeds**—To increase working capital. Statement effective Nov. 10.

Ekco Products Co., Chicago, Ill.
Oct. 12 (letter of notification) 8,461 shares of common stock (par $2.50). **Price**—$13 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1949 No. Cicero Ave., Chicago, Ill.

Factors Corp. of America
Nov. 6 (letter of notification) $250,000 of 10-year 6% debentures dated Dec. 1, 1950, and 5,000 shares of common stock (par $1), of which the debentures and 3,500 shares of stock are to be offered in units of a $1,000 debenture and 14 shares of stock and 1,500 shares are to be sold to Leonard L. Zeidman, President. **Price**—$1,140 per unit and $10 per common share. **Underwriter**—None. **Proceeds**—To increase working capital and for expansion. **Office**—606 Widener Building, Juniper and Chestnut Streets, Philadelphia 7, Pa.

Fanner Manufacturing Co., Cleveland, Ohio (12/4-5)
Nov. 15 filed 150,000 shares of common stock (par $1). **Price**—12 per share. **Underwriters**—The First Cleveland Corp., Cleveland, O., and A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—To C. Greif Raible, President, the selling stockholder. **Business**—Manufacturer of metal products for industrial and commercial consumption.

• Farrington Manufacturing Co., Boston, Mass.
Nov. 15 (letter of notification) 906 shares of 5½% preferred stock (par $50) and 1,812 shares of class A common stock (par $10) to be offered in units of one preferred and two common shares. **Price** — $60 per unit. **Underwriter** — Chace, Whiteside, Warren & Sears, Inc., Boston, Mass., who may purchase 200 units at $56.50 per unit. **Proceeds**—For working capital. **Office**—76 Atherton St., Boston 30, Mass.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. Price—To be filed by amendment, along with dividend rate. Underwriter—Smith, Barney & Co., New York. Proceeds—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Statement may be withdrawn. It was reported on Oct. 5 that company has completed purchase of El Monte plant.

• Felters Co., Boston, Mass.
Nov. 14 (letter of notification) 1,750 shares of common stock (par $10). **Price** — At market (estimated at not more than $10 per share). **Underwriter** — H. C. Wainwright & Co., Boston, Mass. **Proceeds**—To two selling stockholders. **Office**—210 South St., Boston, Mass.

Florida Telephone Co., Ocala, Fla.
Oct. 27 (letter of notification) 27,200 shares of common stock (par $10), being offered first to common stockholders of record as of Nov. 15; rights to expire Dec. 2. **Price**—To stockholders, at par, and to public, at $11 per share. **Underwriters**—Shaver and Cook and Florida Securities Corp., St. Petersburg, Fla. **Proceeds**—For expansion program.

● **Glenmar Farm Products, Inc., Sterling, Va.**
Nov. 17 (letter of notification) 490 shares of 6% cumulative and participating (up to 10%) preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital.

Great Lakes Oil & Chemical Co.
Oct. 26 (letter of notification) 284,616 shares of capital stock of which 259,616 shares are offered to the stockholders at rate of one share for each seven shares held on Nov. 20 (rights to expire on Dec. 11) and 25,000 shares are to be issued upon exercise of stock option held by Herbert Herff. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To develop certain oil and gas lands. **Office** — Michigan National Bank Bldg., Grand Rapids 2, Mich.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage. Financing may be abandoned.

● **Hearn Department Stores, Inc., N. Y. City**
Nov. 17 filed 40,000 shares of 5% cumulative convertible preferred stock, to be offered for subscription by common stockholders on the basis of one preferred share for each seven shares of common stock held. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — From this offering, plus a $2,000,000 term bank loan, to be used to repay bank loans, for improvements to properties and for working capital.

Hooper Telephone Co., Hooper, Neb.
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

Hub Loan Co., Jersey City, N. J.
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Proceeds**—For working capital.

Idaho Maryland Mines Corp.
Nov. 3 (letter of notification) 40,000 shares of common stock (par $1). **Price**—At current market (about $1.10 per share). **Underwriter**—E. F. Hutton & Co., San Francisco, Calif. **Proceeds**—To two selling stockholders.

Infra Roast, Inc., Boston, Mass.
Nov. 3 (letter of notification) 207,000 shares of common stock to be initially offered to stockholders; unsubscribed shares to public. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To finance the purchase of 100 automatic coffee-roasting machines. **Office**—84 State St., Boston, Mass.

International Minerals & Chemical Corp. (12/6)
Nov. 14 filed 200,470 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—White, Weld & Co., New York. **Proceeds**—For plant expansion.

Kaye-Halbert Corp., Culver City, Calif.
Oct. 6 by amendment filed 120,000 shares of class A convertible common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To pay off promissory notes and for working capital.

Lancaster Chemical Corp.
Oct. 23 (letter of notification) 100,000 shares of 6% (cumulative, if earned) convertible preferred stock, being offered to common stockholders of record Oct. 18 on a pro rata basis; rights expire Nov. 30. **Price**—At par ($2.50 per share), payable in cash or at rate of one common share (par $1) plus 50 cents in cash. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Ave., New York 20, N. Y.

● **Lawrence Aero-Mist Sprayer Corp., Greenfield, Mass.**
Nov. 17 (letter of notification) 588 shares of class B stock (no par). **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For working capital.

● **Leadville Lead Corp., Denver, Colo.**
Nov. 14 (letter of notification) 15,000 shares of common stock (par $1). **Price**—75 cents per share. **Underwriter**—None. **Proceeds**—To James Redman, the selling stockholder.

● **Lee Oil & Natural Gas Co., Baltimore, Md.**
Nov. 8 (letter of notification) 156,611 shares of common stock (par 25 cents). **Price**—50 cents per share. **Underwriter**—Mitchell-Hoffman & Co., Baltimore, Md. **Proceeds**—For expansion and for general corporate purposes.

Lockheed Aircraft Corp., Burbank, Calif.
Nov. 6 filed 33,875 shares of capital stock (par $1) to be offered officers and employees who have been issued stock options exercisable on Nov. 26, 1950. **Price**—$22 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes.

NEW ISSUE CALENDAR

November 28, 1950	
Bell Co. of Worcester, Mass.	Common
Central Power & Light Co., 11:30 a.m. (CST)	Bonds
Davison Chemical Corp.	Common
Diversey Corp.	Common
Pennsylvania Power & Light Co.	Common
Tide Water Power Co.	Preferred
Wisconsin Public Service Corp., 10:30 a.m. (CST)	Bonds
November 29, 1950	
Central Illinois Public Service Corp.	Common
Federal Water & Service Corp., 11 a.m. (EST)	Common
Missouri-Kansas-Texas RR.	Equip. Trust Ctfs.
November 30, 1950	
American Investment Co. of Illinois	Common
New York, Chicago & St. Louis RR.	Eq. Tr. Ctfs.
December 4, 1950	
Colonial Acceptance Corp.	Com. & Debentures
Fanner Manufacturing Co.	Common
Minnesota Power & Light Co., noon (EST)	Common
Providence Washington Insurance Co.	Preferred
Southwestern Gas & Elec. Co., noon (EST)	Bonds
Texas Eastern Transmission Corp.	Preferred
Wilcox-Gay Corp.	Common
December 5, 1950	
Central Illinois Public Service Corp., 11:30 a.m. (CST)	Debentures
Union Electric Co. of Missouri, noon (EST)	Bonds
December 6, 1950	
American Rock Wool Corp.	Common
Cleveland Union Terminals Co.	Bonds
International Mineral & Chemicals Corp.	Common
Pennsylvania Salt Mfg. Co.	Common
December 11, 1950	
Carolina Power & Light Co.	Bonds
December 12, 1950	
Lucky Stores, Inc.	Common
Metropolitan Edison Co., noon (EST)	Pfd. & Bonds
Schick, Inc.	Common
December 13, 1950	
Miles Shoes, Inc.	Common
December 15, 1950	
St. Louis-San Francisco Ry.	Equip. Tr. Ctfs.
January 3, 1951	
Dow Chemical Co.	Common

Lorain Telephone Co.
Oct. 5 (letter of notification) 2,830 shares of common stock (no par) offered to common stockholders of record Oct. 7 on a pro rata basis; rights expire Dec. 15. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 9th St., Lorain, Ohio.

● **Lucky Stores, Inc. (12/12)**
Nov. 15 filed 160,000 shares of common stock (par $1.25). **Price** — To be supplied by amendment. **Underwriter**—Blair, Rollins & Co. Inc. **Proceeds**—For working capital.

● **Lytton's, Henry C. Lytton & Co., Chicago, Ill.**
Nov. 17 filed 83,000 shares of common stock (par $1). **Price** — To be supplied by amendment. **Underwriter**—Blunt Ellis & Simmons, Chicago, Ill. **Proceeds**—To the executors of the estate of Henry C. Lytton. **Offering**—Expected in early December.

Mascot Mines, Inc., Kellogg, Ida.
Oct. 27 (letter of notification) 400,000 shares of capital stock. **Price**—37½ cents per share. **Underwriter**—Standard Securities Corp., Spokane, Wash. **Proceeds**—To purchase controlling interest in Pine Creek Lead-Zinc Mining Co., for development costs and working capital.

McCoy-Couch Furniture Mfg. Co., Benton, Ark.
Oct. 16 (letter of notification) 12,000 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — To repay RFC loan and to increase working capital. **Address**—P. O. Box 312, Benton, Ark.

McDonnell Aircraft Corp., St. Louis, Mo.
Oct. 23 (amendment) 80,000 shares of common stock (par $5). **Price**—At market (estimated at $17.25 per share) to be offered over-the-counter. **Underwriter**—Brokers and/or dealers may be underwriters. **Proceeds**—To five selling stockholders. Statement effective Nov. 1.

Mercantile Acceptance Corp. of California
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

Metropolitan Edison Co. (12/12)
Nov. 7 filed $5,250,000 of first mortgage bonds due Dec. 1, 1980, and 20,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; First Boston Corp.; Carl M. Loeb, Rhoades & Co.; Drexel & Co.; Kidder, Peabody & Co.; White, Weld & Co. and Equitable Securities Corp. (jointly); Harriman Ripley & Co. and Union Securities Corp. (jointly). (2) For preferred: Drexel & Co.; Smith Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly). **Proceeds**—From the sale of the aforementioned securities and from the sale to General Public Utilities Corp. of 24,220 common shares will be used as follows: $1,247,500 to retire York Haven Water & Power Co. 50-year 5% gold bonds due June 1, 1951, and for construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 12.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

● **Miles Shoes, Inc., New York City (12/13)**
Nov. 20 filed 77,400 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Wertheim & Co. and Lehman Brothers. **Proceeds**—To two selling stockholders.

Minnesota Power & Light Co. (12/4)
Oct. 30 filed 150,000 shares of common stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders: First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co.; Lehman Brothers. Proceeds for construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 4.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Montana Power Co.
Sept. 25 filed $10,000,000 of 25-year sinking fund debentures due Oct. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co.: Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); White, Weld & Co.; Lehman Brothers. **Proceeds**—To repay bank loans and for expansion and extension of gas and electric properties. **Offering**—Originally scheduled for Oct. 31 has been postponed for at least six to nine months. Temporary bank borrowings amounting to $10,000,000 have been arranged.

Nachman Corp., Chicago, Ill.
Oct. 25 (letter of notification) 6,000 shares of common stock (par $10). **Price**—$15 per share. **Underwriter**—Bacon, Whipple & Co., Chicago, Ill. **Proceeds**—To Mitchell. Hutchins & Co., Inc., the selling stockholder.

Niagara Duplicator Co.
Oct. 31 (letter of notification) 3,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds** — To operate manufacturing business. **Office**—2000 Russ Bldg., San Francisco, Calif.

Peerless Casualty Co., Keene, N. H.
Nov. 10 (letter of notification) 19,500 shares of common stock (par $5). **Price**—$15 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—19 Federal Street, Keene, N. H.

Pennsylvania Power & Light Co. (11/28)
Nov. 9 filed 475,409 shares of common stock (no par), to be offered to common stockholders of record Nov. 28 on a one-for-seven basis, with an oversubscription privilege; rights to expire on Dec. 13. Unsubscribed shares also to be offered to employees. **Price** — To be filed by amendment. **Underwriters** — The First Boston Corp., New York, and Drexel & Co., Philadelphia, Pa. **Proceeds**—For construction program.

● **Pennsylvania Salt Manufacturing Co. (12/6)**
Nov. 15 filed 124,879 shares of common stock (par $10) to be offered to common stockholders of record Dec. 6 on basis of one share for each seven shares held. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For improvement and expansion of plant facilities.

Penton Publishing Co., Cleveland, Ohio
Oct. 17 filed 80,000 shares of $1.50 convertible class A stock (par $25), being offered to holders of presently outstanding 20,078 shares of $100 par 7% preferred stock on basis of 5½ shares of new class A stock in exchange for each share of 7% preferred subject to acceptance by not less than 12,000 shares of 7% preferred, nor by more than 14,545 shares. The exchange offer which became effective Nov. 16 will expire on Nov. 24. **Price**—At par. **Underwriter**—Maynard H. Murch & Co., Cleve-

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land, Ohio. **Proceeds**—Toward redemption of 7% preferred stock and payment of accrued dividends. Statement effective Nov. 9.

Pig'n Whistle Corp., Los Angeles, Calif.
Nov. 10 (letter of notification) 4,000 shares of $2 cumulative convertible prior preferred stock (par $7.50). **Price**—$8 per share. **Underwriter**—Fewel & Co., Los Angeles, Calif. **Proceeds**—To Steven Kormondy, the selling stockholder. **Office**—945 Venice Boulevard, Los Angeles, Calif.

● **Proctor & Gamble Co., Cincinnati, Ohio**
Nov. 16 filed not more than 2,100 participations in Profit Sharing Fund A, to which a participant contributes 5% of total pay but not in excess of $100 per annum, and not more than 1,200 participations in Stock Purchase Plan, to which a participant contributes regular sums deducted from pay, to be offered to employees during 1951. Contributions, plus other funds, not expected to exceed $2,000,000 to be used to purchase not more than 35,000 shares of common stock of the company. No new stock will be issued in connection with the plans.

● **Producers Benefit Insurance Co., Mesa, Ariz.**
Nov. 10 (letter of notification) an indefinite number of trust agreements, evidencing subscriptions to not more than 300,000 shares of capital stock (par $1) of Producers Finance Co. of Arizona to be offered to purchasers of life insurance from the issuer. Under terms of agreement, subscribers assign to trustee future dividends to be paid by the issuer on insurance policies, and the trustees use such dividends to purchase stock in Finance company. **Underwriter**—None. **Proceeds**—To secure capital to activate Finance company.

Producers Finance Co. of Arizona
Nov. 3 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To activate company under terms of trust agreement. Office—26 West First Ave., Mesa, Ariz.

Providence Washington Insurance Co. (12/4)
Nov. 10 filed 80,000 shares of cumulative convertible preferred stock (par $10), to be offered to common stockholders of record Dec. 4 on basis of one preferred share for each five common shares held; rights will expire Dec. 19. **Price**—To be supplied by amendment (expected to be between $48 and $55 per share). **Underwriters**—The First Boston Corp. and Wood, Struthers & Co., both of New York, and Brown, Lisle & Marshall of Providence, R. I. **Proceeds**—To be added to general funds.

Quaker City Fire & Marine Insurance Co.
Aug. 2 (letter of notification) 10,000 shares of capital stock (par $20) to be offered on a one-for-four basis to stockholders of record Oct. 20, 1950, with the rights expiring Dec. 4, 1950. **Price**—$25 per share. **Underwriter** — Unsubscribed shares to be offered publicly through Burton, Cluett and Dana, 120 Broadway, New York, N. Y. **Proceeds**—For working capital. **Office**—226 Walnut Street, Philadelphia 6, Pa.

Ramie Products Corp.
Sept. 21 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Smith, Talbott & Sharpe, Pittsburgh, Pa. **Proceeds**—For purchase of additional machinery and equipment and working capital. **Office**—507 Liberty Avenue, Pittsburgh 22, Pa.

● **Republic Supply Co. of California**
Nov. 6 (letter of notification) 21,000 shares of common stock, to be offered initially to stockholders. **Price**—At par ($10 per share). **Underwriter**—Dean Witter & Co., Los Angeles, Calif. **Proceeds**—For working capital.

Safeway Stores, Inc.
Nov. 2 filed 200,765 shares of 4% cumulative preferred stock (par $100), being offered in exchange for outstanding 182,513 shares of 5% cumulative preferred stock (par $100) on basis of 1 1/10 shares of 4% preferred, plus 30 cents in cash, for each share of 5% preferred stock, with a cash adjustment for fractions; offer to expire Nov. 27. **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To redeem on April 1, 1951, the unexchanged 5% preferred stock. **Offering**—Of unexchanged shares expected Nov. 29. Statement effective Nov. 13.

● **Schick Inc., Stamford, Conn. (12/12)**
Nov. 20 filed 243,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To certain members of the Schick family.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50c). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif. Statement to be withdrawn.

Southern Discount Co., Atlanta, Ga.
Sept. 18 (letter of notification) $191,500 of 5% subordinated debentures, series E. **Price**—At par. **Underwriter**—For $100,000 of debentures, Allen & Co., Lakeland, Fla. **Proceeds**—To reduce bank loans and for working capital. **Office**—220 Healey Bldg., Atlanta, Ga.

Southern Insurance, Inc., Atlanta, Ga.
Nov. 2 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To purchase stock in Southern Fire & Marine Insurance Co. and to reduce debt. **Office**—79 Ponce De Leon Ave., N. E., Atlanta, Ga.

Southwestern Gas & Electric Co. (12/4)
Nov. 2 filed $6,000,000 of first mortgage bonds, series D, due Dec. 1, 1980. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, and Carl M. Loeb, Rhoades & Co. (jointly); Lehman Brothers; Equitable Securities Corp.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Otis & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); The First Boston Corp. **Proceeds** — For construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 4. Public offering tentatively set for Dec. 6.

Texas Eastern Transmission Corp. (12/4-6)
Nov. 14 filed 200,000 shares of convertible preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion and to retire $10,000,000 outstanding 2¾% serial notes. Expected early in week of Dec. 4.

● **Texas Illinois Natural Gas Pipeline Co., Chicago**
Nov. 20 filed 300,000 shares of common stock (par $1), to be offered to common stockholders of record Dec. 8 on the basis of one new share for each 7½ shares held. (Peoples Gas Light & Coke Co. owner of more than 50% of outstanding common stock will subscribe for its proportionate share of new stock, plus any other unsubscribed shares). **Price**—$10 per share. **Underwriters**—Probably White, Weld & Co.; A. C. Allyn & Co., Inc.; Bacon, Whipple & Co., et al. **Proceeds**—To finance proposed pipeline from Texas to Chicago.

Tide Water Power Co. (11/28)
Nov. 1 filed 132,000 shares of $1.35 cumulative preferred stock (par $25), convertible on or before December, 1960. **Price**—To be supplied by amendment. **Underwriter**—Union Securities Corp. and W. C. Langley & Co., New York. **Proceeds**—To redeem $4.25 preferred stock and for construction program.

● **Trusteed Funds, Inc.**
Nov. 22 filed not more than 600 Commonwealth Fund indentures of trust plan C, aggregating not in excess of $600,000. **Sponsor**—Trusteed Funds, Inc.

● **Trusteed Industry Shares**
Nov. 22 filed 500,000 shares of capital stock. **Sponsor**—T. I. S. Management Corp., New York.

Union Electric Co. of Missouri (12/5)
Nov. 2 filed $25,000,000 of first mortgage and collateral trust bonds, due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kuhn, Loeb & Co. and Harriman Ripley & Co., Inc. (jointly); The First Boston Corp.; Lehman Bros.; Dillon, Read & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—To finance construction program and pay bank loans. **Issuance** — Subject to stockholders' approval on Nov. 20. **Bids**—To be received by company at 60 Broadway, Room 1901, New York 4, N. Y., up to noon (EST) on Dec. 5. **Offering Date**—Tentatively fixed as Dec. 7.

United Specialties Co., Chicago, Ill.
Nov. 8 (letter of notification) 1,000 shares of common stock (par $1). **Price**—At market (approximately $14.25 per share). **Underwriter**—Shields & Co., Chicago, Ill. **Proceeds**—To John T. Beatty, the selling stockholder.

Western Light & Telephone Co., Inc.
Nov. 6 (letter of notification) 14,870 shares of common stock (par $10), to be offered to present stockholders. **Price**—To be filed by amendment. **Underwriter**—None. **Proceeds**—For construction program.

Wilcox-Gay Corp., Charlotte, Mich. (12/4-9)
Oct. 25 filed 500,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriters**—Gearhart, Kinnard & Otis, Inc., New York, N. Y., and White & Co., St. Louis, Mo. **Proceeds**—To pay obligations to all unsecured creditors. Expected early next month.

Wisconsin Public Service Corp. (11/28)
Oct. 16 filed $4,000,000 of first mortgage bonds due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Robert W. Baird & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Equitable Securities Corp.; Otis & Co.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; A. G. Becker & Co.; Carl M. Loeb, Rhoades & Co.; Harris, Hall & Co. (Inc.); Shields & Co.; F. S. Moseley & Co. **Proceeds**—From sale of bonds, plus $2,250,000 to be received from sale of stock at par to Standard Gas & Electric Co., will be used to repay $3,300,000 of bank loans and to finance construction program. **Bids**—Expected to be received up to 10:30 a.m. (CST) on Nov. 28 at the Harris Trust and Savings Bank, Chicago, Ill. Statement effective Nov. 16.

Prospective Offerings

Algonquin Gas Transmission Co.
Nov. 3 the FPC said it was of the opinion that certain of the New England markets should be served by this company, upon showing that it has an adequate amount of gas. Necessary financing, probably about $40,000,000, likely to be 75% bonds and 25% stock, with common stock to be offered first to stockholders. Probable underwriter: Dillon, Read & Co. Inc.

Atlantic City Electric Co.
Oct. 18 company estimated that about financing to the extent of $2,000,000 will be required in connection with its construction expenditures from Sept. 1, 1950 through Dec. 31, 1951 which will amount to $6,898,000.

Carolina Power & Light Co. (12/11)
Nov. 20 it was reported that this company will be in the market, probably in February, with an offering of $15,000,000 of new bonds. Previous debt financing placed privately. If competitive, probable bidders are: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers; Equitable Securities Corp. Proceeds will be used for expansion program.

Carpenter Steel Co.
Oct. 30 stockholders voted to increase the authorized common stock, par $5, from 500,000 shares to 1,000,000 shares (there are presently 396,000 shares outstanding). The management has no present plans to issue any additional common stock. Traditional underwriters: F. S. Moseley & Co.; White, Weld & Co.; Hemphill, Noyes, Graham, Parsons & Co., and H. M. Byllesby & Co., Inc.

Central Hudson Gas & Electric Corp.
Oct. 25 company announced it has asked New York P. S. Commission authority to issue $12,000,000 of new 30-year first mortgage bonds, of which it plans to sell early in December at least $7,000,000 and the remainder in instalments during the following six months. Previous bond financing was done privately. **Proceeds**—For construction program.

Cleveland Union Terminals Co. (12/6)
Nov. 20 company asked ICC authority to issue $40,000,000 of 1- to 16-year serial first mortgage bonds, due $2,500,000 annually. **Underwriters**—To be determined by competitive bidding. Probable bidders may include Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. and The First Boston Corp. **Proceeds**—To provide a major portion of the funds required to redeem $41,614,400 series A, B and C first mortgage sinking fund bonds April 1, 1951.

● **Colorado Fuel & Iron Corp.**
Nov. 3, the directors approved a $26,200,000 modernization and improvement program for the company's Minnequa Works at Pueblo, Colo., which is expected to be completed by 1952. Traditional underwriter: Allen & Co., New York.

Columbus & Southern Ohio Electric Co.
March 9 reported planning new equity financing before the end of the year in the form of common stock. Proceeds will finance a portion of the company's construction program, which calls for total expenditures of $45,900,000 in the years 1950-1952. **Traditional Underwriter**—Dillon, Read & Co. Inc., New York.

● **Emerson Electric Manufacturing Co.**
Nov. 20 it was reported that the company was said to be considering the issuance of an issue of convertible preferred stock first to stocknolders on about a 1-for-8 basis. Probable underwriters: Smith, Barney & Co.; Van Alstyne, Noel & Co.; Newhard, Cook & Co.

Eureka Williams Corp.
Oct. 31 stockholders voted to increase authorized common stock (par $5) from 600,000 shares to 1,000,000 shares so that company may be in a position "to act promptly by broadening the scope of business and operations." Traditional underwriters: Hornblower & Weeks and Kebbon, McCormick & Co.

Facsimile & Electronics, Inc.
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

Federal Water & Gas Corp. (11/29)
Nov. 2, J. Howard McGrath, Attorney General of the U. S., invited bids for the purchase from him of 9,000 shares of common capital stock (par $5) of the above corporation. Bids will be received at the Office of Alien Property, 120 Broadway, New York 5, N. Y., on or before 11 a.m. (EST) on Nov. 29. (At present there are 976,303 shares of this class of stock issued and outstanding.)

Gatineau Power Co.
Oct. 27, the preferred stockholders of International Hydro-Electric System asked SEC to order B. A. Brickley, trustee, to sell sufficient Gatineau common stock to pay off a $9,000,000 bank loan. Probable underwriters: Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Harriman Ripley & Co. SEC dismissed application on Nov. 13.

Kaiser Aluminum & Chemical Corp.
Oct. 27 it was reported company plans new financing (may be placed privately). Probable underwriter: The First Boston Corp.

Kansas Gas & Electric Co.
Oct. 10 it was announced that proposed sale of $5,000,000 first mortgage bonds, which had tentatively been scheduled for Nov. 27, has now been deferred, probably until 1951. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds**—For construction program.
Oct. 31 it was reported company is considering refunding early next year of $16,000,000 first mortgage 3⅜% bonds due 1970 (held privately by a group of insurance companies) and $5,000,000 of first mortgage 3⅛% bonds due 1978. (See also accompanying item).

Lone Star Steel Corp.
Nov. 12, it was reported that company may issue and sell additional securities should it receive government consent to the building of a new plant. Probable underwriters: Straus & Blosser; Estabrook & Co., and Dallas Rupee & Son.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank

loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

Mississippi River Fuel Corp., St. Louis, Mo.
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplued later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

Missouri Central Natural Gas Co., Macon, Mo.
Nov. 1 company asked FPC authority to build approximately 60 miles of pipeline in Missouri at an estimated cost of $1,200,000. The project would be financed from the proposed issuance of $1,000,000 of first mortgage bonds and 2,000 shares of $100 par 5% preferred stock.

Missouri-Kansas-Texas RR. (11/29)
Oct. 16 it was reported company is planning ot issue $5,-700,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

Monarch Machine Tool Co.
Nov. 9, it was announced that stockholders will vote Dec. 20 on a plan to increase the authorized common stock from 250,000 shares to 750,000 shares and splitting up the present 210,000 outstanding shares on a two-for-one basis. If any new financing, probable underwriters will include F. Eberstadt & Co., Inc., of New York, and Prescott, Hawley, Shepard & Co., Inc., of Cleveland, Ohio.

Montana-Dakota Utilities Co.
Oct. 11 company asked FPC for authority to issue $2,-800,000 of 2½% promissory notes to banks to provide funds for its expansion program. These notes, together with $3,000,000 of notes authorized by FPC last May, are to be refunded by permanent financing before April 1, 1951. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Stockholders on Nov. 27 will vote on increasing authorized preferred stock from 100,000 to 150,000 shares and common stock from 1,500,000 to 2,500,000 shares. R. M. Heskett, President, stated that about $10,000,000 will be raised within the next six months.

National Video Corp., Chicago, Ill.
Oct. 23 it was reported this company contemplates the offering of additional capital stock, the proceeds of which are to be used to finance, in part, the cost of erection of a new $1,200,000 building and an additional $1,000,000 for new equipment. Most of the funds necessary for this expansion are expected to come from earnings.

● **Nevada Natural Gas Pipe Line Co.**
Nov. 15 company asked FPC to authorize construction and operation of a 114-mile pipeline for the transportation of natural gas, which, it is estimated, will cost $2,331,350.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue $10,000,000 of new bonds and 70,000 to 80,-000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc. (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred: W. C. Langley & Co.

New York, Chicago & St. Louis RR. (11/30)
Nov. 14 it was announced bids will be opened by the company on Nov. 30 on an issue of $3,120,000 equipment trust certificates to be dated Dec. 15, 1950 and to mature semi-annually June 15, 1951 to Dec. 15, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Lee Higginson Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Niagara Gas Transmission Ltd. (Canada)
Oct. 20, it was announced that this company, a subsidiary of Consumers' Gas Co., plans to build a pipe line in Canada to export from Tennessee Gas Transmission Co. Texas natural gas by way of the Niagara border. The total cost of the project is estimated at $6,000,000, of which $2,000,000 will be represented by 400,000 shares of capital stock, par $5, and $4,000,000 to be raised by the issue of bonds.

Niagara Mohawk Power Corp.
Oct. 24 the company estimated that, through 1951, it will require not more than $35,000,000 of additional debt or equity financing in connection with its 1951 construction which is expected to cost $52,328,000. This amount is in addition to the sale on Oct. 31 of $40,000,000 general mortgage bonds due Oct. 1, 1980. Probable bidders for new bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.

North Penn Gas Co.
Sept. 25 it was announced company plans permanent financing following merger of the Pennsylvania subsidiaries of Pennsylvania Gas & Electric Corp., the parent. **Proceeds**—To retire, in part, proposed bank loans of $3,000,000.

Northeastern Gas Transmission Co.
Nov. 8 FPC authorized company to supply part of New England with natural gas, and authorized Tennessee Gas Transmission Co., parent, to carry out a $118,645,545 expansion program, part of which will supply some of Northeastern's gas needs. Traditional underwriters for Tennessee: White, Weld & Co.; Stone & Webster Securities Corp.

Oklahoma Gas & Electric Co.
Sept. 28 a plan was filed with the SEC, which provides, in part, for the refunding of the outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal par amount of preferred stock having a lower dividend rate "as soon as the transaction becomes economically sound," and to finance part of the company's construction program by the issuance and sale of additional common stock. Stockholders will vote on Dec. 4 on changing each of the 1,076,900 shares of $20 common stock now outstanding to two shares of common stock, $10 par each; and on changing the 825,000 shares of authorized but unallotted shares, $20 par, of 4% cumulative preferred stock to 165,000 shares of $100 par cumulative preferred stock. Probable underwriters: Harriman Ripley & Co., Inc.; Smith, Barney & Co.; Lehman Brothers.

Pacific Lighting Corp.
Nov. 13 corporation estimated that approximately $24,000,000 will have to be raised through the sale of securities next year to finance its 1951 construction program. Traditional underwriter: Blyth & Co., Inc.

Pacific Northwest Pipeline Corp.
June 30 company sought FPC authority to build a 2,175 mile pipeline system—from southern Texas to Washington—at a cost of $174,186,602. Negotiations for major financing requirements are now in process of being completed. Probable underwriters: White, Weld & Co. and Kidder, Peabody & Co. R. R. Herring, President, on Oct. 12 stated permission to build the line is expected within six months.

Pennsylvania Electric Co.
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

Pennsylvania Power & Light Co.
Nov. 9 Chas. E. Oakes, President, stated the company will require about $34,900,000 of new capital over the next four years through the sale of securities. It is reported that not over 75,000 shares of series preferred stock may be sold late this year or early 1951. **Traditional Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—To finance, in part, the company's construction program.

Public Service Co. of Colorado
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000." Probable bidders for $7,000,000 of debentures which company had planned to issue earlier this year were: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.). This latter plan was abandoned last August.

Public Service Co. of Indiana, Inc.
Oct. 31, company estimated that, in addition to the $40,-000,000 bank credit arranged with eight banks, it may be required, during the period prior to Dec. 31, 1953, to obtain additional funds of approximately $40,000,000 in order to take care of its construction program.

● **Public Service Co. of New Mexico**
Nov. 1 the New Mexico P. S. Commission approved an $8,000,000 financing program by this company, which proposes to expend approximately $11,700,000.

● **St. Louis-San Francisco Ry. (12/15)**
Nov. 20, it was reported the company expects to sell about $5,500,000 of equipment trust certificates, series H, to mature 1951 to 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Haris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

● **South Jersey Gas Co**
Nov. 20 an advisory report submitted to SEC provides for sale of entire holdings of United Corp. in the stock of South Jersey Gas Co. (154,231.8 shares, par $5 each.) Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly).

Southeastern Michigan Gas Co., Chicago, Ill.
June 12 it was announced company plans issuance and sale of first mortgage bonds, debentures, preferred stock and common stock in connection with its proposed new pipe line in Michigan to cost approximately $1,400,000. Application is before FPC.

Southern California Edison Co.
Sept. 27, W. C. Mullendore, President, announced that company will have to raise $50,000,000 in new capital within the next 18 months to finance its 1951 construction program. Total financing may involve $55,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & Co.

● **Southern Indiana Gas & Electric Co.**
Nov. 6, the company applied to the Indiana P. S. Commission for authority to issue and sell $3,000,000 of 30-year first mortgage bonds. Underwriters—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; First Boston Corp.; Equitable Securities Corp.; Otis & Co.; Carl M. Loeb, Rhoades & Co.; Salomon Bros. & Hutzler. Proceeds—For expansion program.

Southern Natural Gas Co.
Nov. 1, Chirstopher T. Chenery, Chairman, announced company will soon file with SEC a financing program which is expected to comprise $17,500,000 of 20-year first mortgage pipeline bonds and 155,546 shares of additional common stock (latter to be offered for subscription by stockholders in ratio of one share for each 10 shares held). **Price**—For stock to be announced later. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—To repay a $20,000,000 2% bank loan due July 1, 1951, and the balance (expected to exceed $1,500,000) to provide some additional working capital. **Bids**—Tentatively scheduled for bonds in first week of January.

Southern Union Gas Co.
Oct. 20 it was reported company plans to raise between $7,000,000 and $8,000,000 through the sale of new securities next Spring. **Underwriter** — Blair, Rollins & Co., Inc., handled the financing early this year of $18,000,000 of first mortgage 2⅞% bonds and $3,000,000 of 4¾% preferred stock (par $100). **Proceeds**—To repay $3,000,-000 of bank loans and for construction expenditures.

Tennessee Gas Transmission Co.
See accompanying item on Northeastern Gas Transmission Co.

Texas Gas Transmission Corp.
Nov. 9, it was reported that this company is understood to be studying further expansion plans, although no financing is considered imminent. Probable underwriter: Dillon, Read & Co. Inc. New York.

● **United Gas Corp.**
Nov. 16, the Division of Public Utilities of the SEC has recommended that SEC order Electric Bond & Share Co. to dispose of its holdings of 2,870,653 shares (26.95%) of United Gas Corp. common stock. In event of competitive bidding, probable bidders may include Lehman Brothers.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

Utah Power & Light Co.
Oct. 17 it was announced that present plans call for the company to offer approximately $12,000,000 of new bonds and about 200,000 additional shares of common stock in 1951 to provide funds for its construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co., Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Brothers, and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

Westcoast Transmission Co., Ltd.
Nov. 10, it was announced that Westcoast Transmission Co., Inc., its American affiliate, has filed an application with the FPC seeking authorization to construct approximately 615 miles of pipeline for the transportation of natural gas in the States of Washington and Oregon (this project is estimated to cost $25,690,000). Both companies are sponsored by Pacific Petroleums, Ltd., of Calgary, Sunray Oil Corp. and other members of the "Pacific Group" engaged in active oil and gas exploration and development in Western Canada. The completed line of both companies, to be about 1,400 miles, will, according to estimates, cost about $175,000,000, to be financed 75% by bonds and the remainder by preferred and common stock. **Underwriters**—Eastman, Dillon & Co. and The First Boston Corp.

Western Pacific RR.
Sept. 5 it was announced company plans issuance and sale of $22,000,000 3% first and refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; Lehman Bros. and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire $10,000,000 first mortgage 4% bonds and $6,133,000 convertible income 4½% bonds due 2014, and over $5,800,000 "new money."

Worcester County Electric Co.
Sept. 25 a plan was filed with the SEC, the FPC and the Massachusetts Department of Public Utilities providing for the merger with this company of seven other subsidiaries of New England Electric System, following which Worcester County proposes to issue and sell $12,-000,000 of first mortgage bonds to retire bank loans of the companies participating in the merger. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; First Boston Corp.; Harriman Ripley & Co., Inc.

Continued from page 5

Observations . . .

business-value elements of the listed share to be dwarfed in importance by their successively changing attitudes toward the market as a whole. In their "liquidity" concept the forecasters make of a security a kind of counter in the ebb and flow of market movements. Without realizing it no doubt, they are dealing in prices in lieu of values, attempting to anticipate the extent to which their fellow-public will subsequently cause the price level to diverge from value, to outwit the market's other buyers and sellers, to out-forecast their fellow forecasters.

In this vein of liquidity overemphasis is the "window-dressing" urge on the investor to protect himself from potential criticism or his own conscience if his money should become lost in other than "good company." This pragmatic as well as psychological motive, governing individuals in the handling of their own as well as other people's money, has resulted in the market's growing foible of what I call *Blue Chip-itis*; that is, the cumulative concentration on "good"—that is, popular—issues irrespective of the price-value relationship, with major attention centered on attempts to predict their future price behavior as a kind of elite group.

In this process of style forecasting the investment community has again become engaged in a kind of *game*, aptly likened by the late Lord Keynes to a beauty-election contest in which the contestant tries to pick the prettiest face not according to his own judgment, but on the basis of the one most likely to catch the fancy of the greatest number of his fellow pickers.

* * * *

The investor should realize that a prerequisite for his stocks' good behavior is that he behave himself!

A "Trend"?

Those trying to time movements of the stock market considered as an entity or at least as containing a "trend," overlook the obstacle thereto resulting from the constant divergences within that overall tent termed "the market."

Between 1901 and 1936, while the market as measured by the Dow, Jones Average of Industrial Stocks almost tripled in price (64 to 184), a study undertaken by Robert A. Lovett of Brown Brothers Harriman shows that concurrently the 20 most popular dividend-paying issues (as measured by their trading volume at the beginning) suffered an overall decline of 39%. Although 13 of the most popular issues were of railroads, the industrial as well as the rail components contributed to the record that one-half the issues shrank by 50% or more; one-quarter of the issues suffered bankruptcy, default or reorganization; and 75% of the companies interrupted their dividends.

In the interval from 1929's peak of all time to the present, in contrast to the 40% decline in the Dow, Jones Industrial Average, and 21% in Standard and Poor's Composite Price Index (comprising one-third of all listed stocks in number, and 90% in market value); nevertheless over 300 issues are now selling above their 1929 highs. Included among these are the following leaders:

	Present Price	1929 High
Monsanto Chemical	71	13½
Minnesota Mining	146	7¼
Minneapolis-Honeywell	40	10¼
Abbott Laboratories	44	3⅛
Dow Chemical	80	15⅛
Amerada Petroleum	140	21¼
General Motors	47	47⅞

Similarly, during this period, while the 50 stocks in Standard and Poor's Daily Index have fallen from 200 to 157, a full 10 of these issues have risen.

Of the 50 industry groups recorded by Standard and Poor's, in the face of a 57% rise over the 1935-39 average price of the Composite Index, 7 groups showed absolute declines (ranging to 42% by Canadian gold mining issues) and 38 advanced less than the composite. During the past 12 months, November, 1949-50, while the Composite group was rising by 11%, 15 groups declined and 15 others have remained unchanged.

Similarly, in this year's market, we see that from Jan. 3, 1950 to the present, while the Dow, Jones Industrial Average advanced by 15%, of the 1249 round-lot common stocks traded in on the New York Stock Exchange 918 rose, 305 declined and 26 remain unchanged. The advances ranged up to 140%, and the declines to 35%.

Last Monday's (Nov. 20) market performance typified a single day's *trend* elusiveness. Five hundred and four issues advanced while 360 were declining, one leading index showed a rise while another registered a decline; all of which led to the caption "STOCK INDEX DOWN, BUT LIST IS HIGHER" on a leading newspaper's market story.

Even the impact of war or war threat seems to warrant no inference of uniform market trend. From the time of the outbreak of World War II Sept. 1, 1939 to May, 1942, intra-market movements ranged from an advance of 40% by paper companies to a concurrent decline of 60% in gold mining; while during the recent June-October Korean impact 25 industry groups advanced as 25 others were declining.

The successful forecaster is confronted with the great difficulty of winning a *parlayed* bet. That is, the non-technician must be right on *both* external events and their effect on the market's movement; the internalist on individual stocks as well as the market as a whole.

Our Reporter's Report

The new issue market still appears unable to get off the "deadcenter" upon which it has been impaled for the better part of a month. Institutions apparently will not modify their ideas of what they expect in yield on new offerings currently making their appearance.

And what has been true in the case of debt securities in recent weeks now appears to be gripping preferred stock emissions as well. Major life insurance companies, it is reported, have recently been disposed to hint that they would be interested in the latter type of security.

But again, it is a case of "at a price" and underwriters quite evidently have not been able to gauge their bids for such new issues on a basis that would permit reoffering in line with insurance buyers' ideas.

Consequently things have been, as some dealers put it "a bit on the dull side," making it a little difficult to turn over a dollar.

But there is seemingly a ray of hope in the better behavior of the Treasury securities market where firmness leaning to strength has been the rule of late. The corporate market for seasoned issues, taking its cue from the government list, has been looking up a bit.

Whether the improvement will reach proportions sufficient to make large investors, chief buyers of new securities, take another look at their yield calculations, however, and consider several "close-to-the-line" issues now on shelves, remains to be seen.

New Preferreds

New preferred issues reaching market in the week appeared to be priced just a shade "too rich" to make the grade readily with potential buyers. A few points more on the yield side would have done the trick, according to observers.

Gulf States Utilities preferred, with a $4.10 dividend rate, ran out to four decimals in the bidding, the successful group paying the company a price of $100.0699 and reoffering at $101.818 to yield 4.12½%.

Dealers figured that a 4.18 to 4.20 basis would have brought buyers in, but with the basis fixed those who might have been interested were, to say the least, cool in their reception.

Much the same situation prevailed in the case of Kansas Gas & Electric's 4.28% preferred for which bankers paid $100.721 and reoffered at $102.25 to yield 4.186%. Here, however, the higher yield brought buyers in and reports indicated about half the issue had been placed.

Meeting the Call

The group which purchased Louisiana Power & Light Co.'s $10,000,000 of first mortgage, 30-year bonds a week ago is reported to have cleaned that issue up by quick action adjusting original ideas on offering price.

The initial aim was to reoffer the bonds at a price that would have meant a yield of slightly less than 2.90% to the buyer. But evidently there was clear indication that the issue could be sold if the yield was fixed at the 2.90 level.

So while this involved chipping away a bit of the syndicate's spread, presumably it was decided that such action was better than gambling on being "hung-up" with the bonds for a spell.

Other Issues Still Lag

Meanwhile there is little change reported in the status of Niagara Mohawk Power's recent issue. Bankers, it is reported have been able to work off only some $13,000,000 to $14,000,000 of this $40,000,000 undertaking.

Similarly the smaller Atlantic City Electric Co.'s $18,400,000 of new bonds are still lagging with reports indicating only a little more than $2,000,000 disposed of.

And in the case of Michigan Consolidated Gas Co.'s $20,000,000 issue, the bankers likewise have been able to move only some $4,000,000 to $5,000,000 of the total.

COMING EVENTS

In Investment Field

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 1, 1950 (Dallas, Texas)

Dallas Bond Club election of officers.

Dec. 1, 1950 (New York City)

Security Traders Association of New York annual election and Buffet Supper at the Produce Exchange Luncheon Club.

Dec. 8, 1950 (New York City)

New York Security Dealers Association Silver Anniversary Dinner at the Waldorf-Astoria Hotel (Starlight Roof).

Dec. 8, 1950 (Pittsburgh, Pa.)

Pittsburgh Security Traders Association Annual Dinner at the Pittsburgh Athletic Club.

Dec. 21, 1950 (St. Louis, Mo.)

Mississippi Valley Group of IBA Christmas Party at the Park Plaza Hotel.

Jan. 16, 1951

National Association of Securities Dealers, Inc., Meeting of Governors and Election of Officers.

Feb. 21, 1951 (Philadelphia, Pa.)

Investment Traders Association of Philadelphia Winter Banquet.

June 15, 1951 (Philadelphia, Pa.)

Investment Traders Association of Philadelphia Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa.

DIVIDEND NOTICE

AMERICAN Cyanamid COMPANY

Preferred Dividend

The Board of Directors of American Cyanamid Company on November 21, 1950, declared a quarterly dividend of eighty-seven and one-half cents (87½¢) per share on the outstanding shares of the Company's 3½% Cumulative Preferred Stock, Series A and Series B, payable January 2, 1951, to the holders of such stock of record at the close of business December 1, 1950.

Common Dividends

The Board of Directors of American Cyanamid Company on November 21, 1950, declared

1. A quarterly dividend of one dollar ($1.00) per share on the outstanding shares of the Common Stock of the Company, payable December 23, 1950, to the holders of such stock of record at the close of business December 1, 1950;

and

2. A year-end dividend of twenty-five cents (25¢) per share on the outstanding shares of the Common Stock of the Company, payable December 23, 1950, to the holders of such stock of record at the close of business December 1, 1950.

R. S. KYLE, *Secretary.*

DIVIDEND NOTICES

AMERICAN POWER & LIGHT COMPANY
Two Rector Street, New York 6, N. Y.

CAPITAL STOCK DIVIDEND

A dividend of 24c per share on the Capital Stock of American Power & Light Company was declared on November 21, 1950, for payment December 22, 1950, to stockholders of record at the close of business December 4, 1950.

D. W. JACK, Secretary and Treasurer

ANACONDA

DIVIDEND NO. 170

November 22, 1950

The Board of Directors of Anaconda Copper Mining Company has today declared a dividend of One Dollar and Fifty Cents ($1.50) per share on its capital stock of the par value of $50 per share, payable December 21, 1950, to stockholders of record at the close of business on December 1, 1950.

C. EARLE MORAN
Secretary and Treasurer
25 Broadway, New York 4, N. Y.

DIVIDEND NOTICE

Bayuk Cigars Inc.

A dividend of twenty cents (20c) per share on the Common Stock of this Corporation was declared payable Dec. 15, 1950 to stockholders of record Nov. 30, 1950. Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
Nov. 17, 1950

PHILLIES
America's No. 1 cigar

DIVIDEND NOTICE

INTERSTATE POWER COMPANY

INTERSTATE POWER COMPANY
DUBUQUE, IOWA

PREFERRED DIVIDEND

A quarterly dividend of 58.75 cents per share has been declared on the 4.70% Preferred Stock ($50 Par Value), payable January 1, 1951, to stockholders of record at the close of business December 20, 1950. The transfer books will not be closed.

COMMON DIVIDEND

A dividend of 15 cents per share has been declared on the Common Stock, payable December 20, 1950, to stockholders of record at the close of business December 8, 1950. The transfer books will not be closed.

OSCAR SOLBERG, *Treasurer*
November 20, 1950

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

HOLYOKE, Colo. — Ralph L. Anderson is with Waddell & Reed, Inc. of Kansas City, Mo.

Joins Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

BELLEVILLE, Ill. — Russell G. Bailey has become associated with Fusz-Schmelzle & Co. of St. Louis.

With Don's Inv. Service

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, La. — John Baker has joined the staff of Don's Investment Service, 118 Sherwood Forrest Drive.

In New Location

Sidney Jacobs Company, member National Association of Securities Dealers, Inc. announce that they have moved to larger quarters, at 111 Broadway, New York City.

DIVIDEND NOTICES

Midwest Exch. Members

CHICAGO, Ill.—The Board of Governors of the Midwest Stock Exchange has elected to membership Walter W. Cruttenden, Jr., Cruttenden & Co., Chicago, Ill.; Edwin A. Long, Russell, Long & Burkholder, Lexington, Ky.; John J. McDonald, Chicago, Ill.

DIVIDEND NOTICES

With Oscar E. Dooly

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Robert U. Alexander has become associated with Oscar E. Dooly, Ingraham Building. Mr. Alexander in the past was with Atwill & Co. and was an officer of Harney & Alexander, Inc., of Miami.

DIVIDEND NOTICES

With Boettcher and Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Col. — Conant K. Halsey has become associated with Boettcher and Co., 828 Seventeenth Street, members of the New York Stock Exchange. He was formerly with Gammack & Co. of New York City.

DIVIDEND NOTICES

DIVIDEND NOTICES

FINANCIAL NOTICE

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—If the attitude of Republican members of the House Ways and Means Committee is any sign, GOP members of Congress will be disposed to fight the Administration's excess profits tax scheme on principle.

Before the election, Republicans almost to a man voted for the "mandate" to take up an EPT scheme and pass it during the balance of this calendar year. This was when the entire Congress was cowering in fear of opposing an EPT, not merely out of the fear of EPT's chief proponent, organized labor, but also out of fear of fighting something with the superficial logic behind it of "taxing war profiteers while our boys are dying in Korea."

The elections seem to have given heart to the GOP members. This courage arises from something more than the discrediting of the big union bosses. It stems from the fact that this election, in the opinion of many, demonstrated that it is possible to fight something with great demagogic appeal with facts and reasoning.

Republicans have been supported in their attitude by two things. One was the evidence presented by witnesses, who almost entirely were opposed to the Administration's revised World War II EPT plan. Almost invariably they expressed a willingness to allow the total corporation income tax take to go at least as high as it would under an EPT. They desired only to fight the EPT method of bringing in the taxes. And they presented some convincing case demonstrations that EPT would work harm.

Another factor which has helped Republicans to oppose EPT has been the singular attitude of the entire Democratic membership of the Ways and Means Committee. The committee, with Democrats voting solidly for and Republicans solidly against, confirmed Chairman Doughton's ruling that witnesses may address themselves only to testimony upon the Administration's EPT or a substitute therefore.

This ruling has been held consistently to the narrow interpretation that a witness may suggest no means of boosting corporation taxation on wartime profits by $4 billion unless the testimony is in behalf of an excess profits tax. It is exactly as if the Democrats pawned in the Union Labor hockshop their control of the 82nd Congress in return for a ticket called "EPT," and are determined to pay off the ticket.

At times this narrow interpretation got to be almost comic. Witnesses in all sincerity trying to advise how to tax high profits were told that they were out of order. Then Republican Committee members would appeal the ruling. Then there would be a roll call, and all Democrats would vote to sustain the ruling that witnesses were out of order, and all Republicans would vote to overrule the Chairman.

Thus witnesses would be stopped in the middle of their testimony, and Republican members of the committee trying to find out what the witnesses wanted to say, would have to stumble around trying to find a way to phrase the question so that Mr. Doughton would not rule the answer to the question out of order. Then maybe it would end up by the witnesses being asked to submit their testimony individually to members of the committee who might want it, submitting it for the record being ruled out of order.

One of the curious incidents of this little farce occurred in connection with the publication by Mr. Truman of his letter to Chairman Doughton calling upon Congress to enact a $4 billion EPT retroactive to July 1.

The committee had already scheduled the hearings on this subject and Mr. Truman's only purpose in writing such a letter thus was to put himself on the record as backing down none despite the election.

On the other hand, the President with little respect for the sensibilities of his Congressional followers, made the letter public before he advised Mr. Doughton that such a letter was on the way. The first Mr. Doughton heard of it was when the newsboys asked him for comment.

Chairman Doughton was reported to be extremely angry that the President would be so cavalier as to make public a letter to the Chairman without even telling the Congressman about it, or letting the latter know it was on the way.

On the other hand, Mr. Doughton went "down the line" in the hearings for the EPT. This, incidentally, is one difference between the House and Senate. In the House the "coalition" of southern Democrats and conservative Republicans is far less a solid thing and far more an occasional thing than the "coalition" in the Senate. If the President were figuratively to kick Chairman George of the Senate Finance Committee in the teeth with such a procedure, Mr. George would not react by getting mad in private and being all sweetness toward the White House in public.

Speaker Rayburn, a Texan, usually acts as did Mr. Doughton. Despite action a couple of years ago to take from Texas the control of off-shore oil and hence to deprive Texas of large school revenues, Mr. Rayburn "cried" in private but in public blacked Mr. Truman's legislative boots, a practice which has lost him much influence with House southerners.

* * *

President Truman's press conference remarks that he was going to ask the new Congress for all of the pending "Fair Deal" proposals, and that he was not going to release Dean Acheson from the Cabinet, are not taken very seriously here. Until the Truman high political command decides what and when it will hash up something in the way of 1952 political merchandise, the President is not going to go out of his way to admit that what he offered in 1950 didn't sell. As for Acheson going to stay "period," it is noted that for a long time before he fired Louis Johnson, the President also insisted that Johnson would not leave.

* * *

What Gordon Gray's report did was to provide an "all under one cover" argument for all the foreign economic objectives the Administration held vital in the winter of 1949-50. To this menu was added a dust-jacket stressing the importance of defense of the free world against communism, giving the tome a 1950-51 sales slant.

Hence the Gray report is not viewed with too much alarm by insiders here.

It is note that the Gray effort was organized officially in March, 1950, and its launching at that time reflected what was worrying the Administration in the winter of 1949-50.

Thus, for instance, the Korean war was not expected, and the left-wingers within the Truman Administration had not completely recovered from the fright of the "inventory readjustments" of 1949. They wanted to promote economic expansion at all costs, and since the Spence bill looked like a forlorn possibility, the giving of money away abroad on a vast scale appeared to be the principal practicable means of maintaining the inflation at home.

So it is natural that the Gray report recommended in effect that foreign economic aid be continued for a long time to come and that Point IV's form of beneficence be incorporated therein.

At the time Mr. Gray was commissioned to diagnose the world's economic ills and show how the U. S. could end them, the Administration had no thought of imports and exports of merchandise approaching so close to a balance as they have in the last two or three months. So the Administration was committed not only to ITO, but to vigorous lowering of tariffs via new reciprocal trade agreements, unilateral reductions in U. S. tariffs, and almost anything else that would make it possible for the rest of the world to build up its exports to the U. S.

So Gordon Gray's report embraced all these schemes.

Probably neither the President nor the State Department has abandoned any of the devices or objectives firmly held when the report was arranged for. However, the new Congress obviously will given the proposed International Trade Organization little consideration, and the give-away ideas of the Administration will come under the most skeptical scrutiny.

* * *

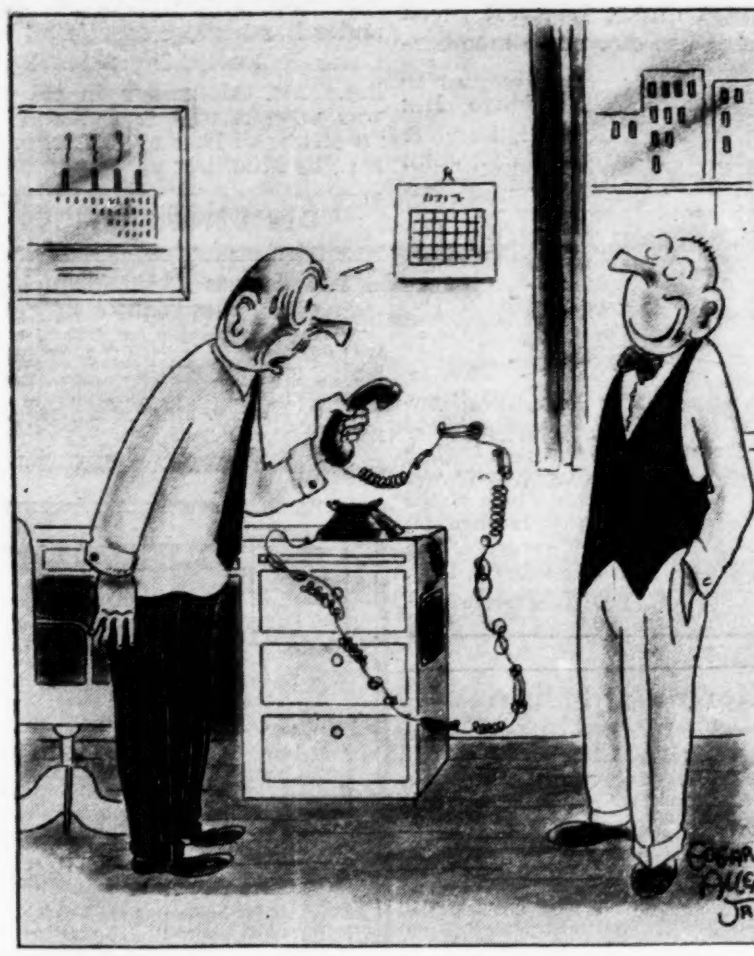
It will be two weeks or more before the Federal Reserve Board and Federal housing officials can announce the application of mortgage credit restrictions to the construction and sale of multi-family housing, it is reported.

Well-informed sources here note that well over 100,000 units of multi-family housing can be built in calendar 1951 under old FHA commitments outstanding at present, and upon which construction cannot get under way before 1951.

Regardless of how liberal or how severe multi-family credit restrictions are devised, there is little expectation that anything but a token volume of rental housing will be constructed outside the government loan insurance system. Mr. Truman's demand for a new rent control law, it is asserted, will scare investors out of investing in rental construction beyond that on which the government would take the loss if rent control resulted ultimately in a loss. Then, too, lawsuits to overturn "segregation" in rental housing has frightened institutional investors from thinking of building big rental projects for their own account.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"I appreciate Navy knots, and I do admire your dexterity, Pendleton, but you're not going to like what I'm about to say to you—"

Bond Club of N. Y. to Hear Philip Reed

Philip D. Reed, Chairman of the board of General Electric Co., will address the Bond Club of New York at its first luncheon meeting of the season to be held at the Bankers Club on Thursday, Dec. 7, it was announced by Clarence W. Bartow, Drexel & Co., President of the Bond Club. Mr. Reed will talk on "Business and Foreign Affairs."

Philip C. Honnold Opens Own Invest. Office

OKLAHOMA CITY, Okla.—Philip C. Honnold is engaging in a securities business from offices at 717 Northwest 38th Street. He was formerly associated with C. Edgar Honnold.

New York Stock Exch. Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of the late Walter Dreyfus to Edward C. Werle will be considered on Nov. 30.

E. Edward Bollinger, member of the Exchange, will retire from partnership in Wolfe & Co., on Nov. 30.

Transfer of the Exchange membership of John L. Tuthill to Raymond A. McMann will be considered by the Exchange on Dec. 7.

Transfer of the Exchange membership of the late Frank S. Levi to Harry C. Dackerman will be considered by the Exchange on Dec. 7.

Transfer of the Exchange membership of Sidney J. Weinberg to Gustave L. Levy will be considered by the Exchange Dec. 7.

D. D. Foster Opens

PITTSBURGH, Pa.—D. Donald Foster is engaging in a securities business from offices at 305 Juniata Court.